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Canada Life Insurance, Royal Commission on

REPORT

OF THE

ROYAL COMMISSION

ON

[Life]

INSURANCE

MINUTES OF EVIDENCE

VOLUME I.

PRINTED BY ORDER OF PARLIAMENT



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OTTAWA

PRINTED FOR S. E. DAWSON, PRINTER TO THE KING'S MOST
EXCELLENT MAJESTY

1907

Royal Commission on Insurance.

FIRST DAY.

The Commissioners met at the Court House, Ottawa, Monday, March 5th, 1906, for the purpose of organization, the full Board and the Secretary being present.

Notice was given that the first public meeting of the Commission would be held at Ottawa, March 7th, 1906, 10 a.m.

(Proceedings stood adjourned accordingly.)

SECOND DAY.

OTTAWA, March 7th, 1906.
10 A.M.

Judge MacTavish: Mr. Ross, will you please read the Commission?

(Mr. Ross, the Secretary, then read the Royal Commission, as follows):—

COMMISSION.

[L. S.] GREY.

CANADA.

EDWARD THE SEVENTH, by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas, KING, Defender of the Faith, Emperor of India.

To all to whom these presents shall come, or whom the same may in any wise concern, *Greeting.*

WHEREAS in and by an Order of Our Governor-General in Council, bearing date the Twenty-eighth day of February, in the year of Our Lord one thousand nine hundred and six, provision has been made for an investigation by Our Commissioners therein and hereinafter named with respect to certain matters relating to or affecting the business of life insurance in Canada, as upon reference to the said Order in Council, a copy of which is hereto annexed, will more fully and at large appear.

NOW KNOW YE that by and with the advice of Our Privy Council for Canada, We do by these presents nominate, constitute and appoint His Honour DUNCAN BYRON MACTAVISH, the Judge of the County Court of the County of Carleton, in the Province of Ontario, JOHN W. LANGMUIR, of the City of Toronto, in the said Province of Ontario, Esquire, and AMBROSE L. KENT, of the City of Montreal, in the Province of Quebec, Accountant, to be Our Commissioners to conduct such enquiry.

To HAVE, hold, exercise and enjoy the said office, place and trust unto the said Duncan Byron MacTavish, John W. Langmuir, and Ambrose L. Kent, together with the rights, powers, privileges and emoluments unto the said office, place and trust, of right and by law appertaining, during pleasure.

AND WE DO hereby, under the authority of the Revised Statutes respecting Inquiries concerning Public Matters, confer upon Our said Commissioners the power of summoning before them any witnesses, and of requiring them to give evidence on oath, orally or in writing, or on solemn affirmation, if they are persons entitled to affirm in civil matters, and to produce such documents and things as Our said Commissioners shall deem requisite to the full investigation of the matters into which they are hereby appointed to examine.

AND WE DO hereby require and direct Our said Commissioners to report to Our Governor-General in Council the result of their investigation, together with the evidence taken before them and any opinion they may see fit to express thereon.

IN TESTIMONY WHEREOF We have caused these Our Letters to be made patent and the Great Seal of Canada to be hereunto affixed.

Witness: Our Right Trusty and Right Well-beloved Cousin the Right Honourable Sir ALBERT HENRY GEORGE, Earl Grey, Viscount Howick, Baron Grey of Howick, in the County of Northumberland, in the Peerage of the United Kingdom, and a Baronet; Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, etc., etc., Governor-General of Canada. At Our Government House, in Our City of Ottawa, this twenty-eighth day of February, in the year of Our Lord one thousand nine hundred and six, and in the sixth year of Our Reign.

By Command,

JOSEPH POPE,

Under Secretary of State.

2nd day, March 7, 1906.

Opening Proceedings

ORDER IN COUNCIL.

EXTRACT FROM A REPORT OF THE COMMITTEE OF THE PRIVY COUNCIL,
APPROVED BY THE GOVERNOR-GENERAL ON THE 28TH FEBRUARY, 1906.

On a Report, dated 26th February, 1906, from the Minister of Finance, submitting that in view of the wide-spread interest at present manifested throughout the country in matters relating to life insurance, and while the Superintendent of Insurance and his officials have conducted a careful investigation, the results of which will in due course appear in reports to be laid before Parliament, it seems desirable that in addition to this usual official examination there should be a more general inquiry of a public character, at which the fullest opportunity can be afforded for an inquiry into all matters relating to this very important subject.

The Minister further submits that he deems it desirable that such inquiry should be undertaken immediately by a Commission of competent persons, so that its results may be communicated to Parliament during the ensuing session, for the assistance of Parliament in any legislation which may be found necessary in amendment of the insurance laws.

The Minister therefore recommends that a Commission be issued under the provisions of Chapter 114 of the Revised Statutes of Canada, intituled "An Act respecting Inquiries concerning Public Matters," appointing commissioners for the following purposes:

1. To inquire into,

(a) The general subject of life insurance and life insurance systems in Canada;

(b) The operations of the various companies chartered by the Parliament of Canada, or by any Province, and licensed under The Insurance Act, transacting Life Insurance in Canada, including expenses of management, investment of funds and other allied questions.

2. To make the like inquiry, as far as deemed necessary, into the operations of companies other than those chartered by the Dominion or a Province, transacting in Canada the business of Life Insurance.

3. To inquire into the operation of the laws of the Parliament of Canada relating to and governing the business of Life Insurance, both as regards Canadian companies and companies other than Canadian, and to consider and report upon any amendments thereto that may be deemed necessary.

4. That the Commissioners so appointed to have power to employ expert assistance, to summon before them witnesses and require them to give evidence on oath, orally or in writing, or on solemn affirmation, if they are persons entitled to affirm in civil matters, and to produce such documents and things as such Commissioners deem requisite to the full investigation of the matters hereinbefore referred to, and generally to exercise all the powers conferred by the said Act.

The Minister further recommends that the following gentlemen be appointed Commissioners for the purposes aforesaid, namely:—

His Honour Judge D. B. MacTavish, of the City of Ottawa, John W. Langmuir, of the City of Toronto, and Ambrose L. Kent, of the City of Montreal; and that Henry T. Ross, barrister, of Bridgewater, Nova Scotia, be appointed Secretary to the said Commission.

The Committee submit the same for approval.

(Sd.) JOHN J. McGEE,
Clerk of the Privy Council.

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2nd day, March 7, 1906.

Opening Proceedings

OPENING PROCEEDINGS.

Judge MacTavish: The Secretary has read the terms of the Commission directing this inquiry, which, with the Order in Council already published, discloses the very wide scope of the investigation now proposed to be held. It must be apparent to every one that there is an absence of any restriction or limitation to the scope of the inquiry, nor is there anything omitted therefrom that can at this stage, at all events, be suggested or anticipated.

I desire to state on behalf of the Commissioners that they appreciate the importance of the matters submitted to them and the very great responsibility involved in the proper discharge of the duties they have undertaken.

The inquiry is perhaps unique and exceptional in this regard, that I am not aware of any other inquiry directed by His Excellency in Council in recent years wherein so large a proportion of the citizens of the country have a direct and a personal interest.

The Commissioners have deemed it expedient that Counsel be retained on behalf of the Crown to aid in the investigation, and arrangements have been made by which the services of Counsel will be available. We will be glad to have the assistance of Counsel on behalf of any interest affected or likely to be affected by the investigation. We not only desire, but we welcome the assistance of all persons interested in the prosecution of the inquiry.

Mr. Henry T. Ross, of the Nova Scotia bar, has been appointed Secretary to the Commission. He has undertaken the duties of that position. He has secured an office in the City of Ottawa, where he will be ready to receive all communications and correspondence which anyone may think desirable to send to the Commissioners. Any individual, corporation or company having any claim, complaint or charge which it is desired to investigate may lay the same before him by addressing a communication to the Secretary at Ottawa, and it will receive our best consideration and will be inquired into. Anyone desiring to communicate with him will facilitate the proceedings by doing so at once.

We would like to bring to the notice of all parties concerned that it is our desire to expedite the proceedings and to determine the matters submitted to us without unnecessary delay, always having in view, however, the necessity for a thorough and exhaustive investigation. No consideration must be permitted to restrict or impede the fullest possible inquiry.

We therefore take this opportunity to announce that on Wednesday, the fourteenth day of March instant, at the hour of 11 o'clock in the forenoon, at the Imperial Building, No. 138 Queen street, Ottawa, we will sit for the purpose of proceeding with the inquiry.

It seems to us that our first duty will be to inquire into the operation of the laws of the Parliament of Canada, relating to the business of Life Insurance generally, and how the provisions of such laws have been observed, and with that object in view we will first procure all possible information from the Insurance Branch of the Department of Finance.

We propose holding our sittings in Ottawa until it is made to appear to us that the public interest requires us to sit elsewhere, in which case we will choose such place as may be deemed necessary, of which due notice will be given, regard being had to the convenience of the parties concerned.

(Proceedings stand adjourned until Wednesday, the 14th day of March, 11 a.m., at the Imperial Building, No. 138 Queen street, Ottawa.

3rd day, March 14, 1906.

Opening Proceedings

THIRD DAY

Ottawa, March 14th, 1906.

Before His Honor Judge MacTavish, Mr. J. W. Langmuir, and Mr. A. L. Kent, Commissioners.

Mr. Henry T. Ross, Secretary.

His Honor Judge MacTavish (Chairman.) Will counsel present be kind enough to inform the Commissioners what interests are represented here, and by whom?

Mr. George F. Shepley, K. C. I have to say, Mr. Chairman, that I appear prosecuting the enquiry with my learned friend, Mr. W. N. Tilley.

Mr. I. F. Hellmuth, K.C. I appear, Mr. Chairman, with my learned friend, Mr. Geary, appointed by the Government of the Province of Ontario, to represent the policyholders of that Province upon this enquiry.

Mr. LeBeuf, K. C. I appear for the Province of Quebec, appointed by the Government of that Province.

Mr. Nesbitt, K. C. I appear with Mr. Leighton McCarthy for the Canada Life and for the Confederation Life.

Mr. R. C. Smith, K. C. I appear for the Sun Life Insurance Company.

The Chairman: Would the gentlemen appearing for parties interested in the investigation, first those interested in prosecuting the enquiry—(and perhaps you are all interested in that way—Mr. Shepley, Mr. Hellmuth and Mr. LeBeuf, indicate to the Commission their own views as to how the enquiry should be prosecuted, with a view of having the interests of every person brought before the Commission, without confusion at all, and to expedite the enquiry, due regard being had to its thoroughness and efficiency?

Mr. Shepley: I have had the opportunity of perusing the notice issued by the Commission, and I rather gather from the terms of the notice that the intention has been that so long as the enquiry is prosecuted satisfactorily, with the interests that are represented here, that counsel retained by the Dominion shall remain in control of the investigation. My suggestion—(and I do not make it at all as an *ultimatum*, because I should like to hear what the other counsel think about it)—is, that until some question should arise, if any ever should arise, upon which there may be a difference of opinion as to the propriety of enquiring into any matter, that the learned counsel who appear for the different interests, the policyholders in the two Provinces, should communicate with counsel conducting the enquiry up-

on any subjects or matters which seem to them expedient to be enquired into. Should a difference of opinion arise, no doubt the Commission will deal with that when it arises. I should myself, rather anticipate that no such difficulty will arise. I make this suggestion largely in the interests of what seems to me to be the convenient and expeditious method of conducting the enquiry. I should like, however, to hear what the counsel have to say, because I am not at all bound to that, if another course seems more expedient.

Mr. Hellmuth: I should have thought, Mr. Chairman, that while the conduct of this Commission, so far as the legal aspect is concerned, would properly rest with my learned friends representing the Dominion, who have the conduct of the inquiry, that if they were to call any witness or prosecute any inquiry, that when they had completed their investigation in reference to a particular subject matter, should anything suggest itself, either to the counsel representing the Province of Ontario or the Province of Quebec, that they might be allowed to ask such reasonable questions, not at interminable length, of course, to further elucidate any such matter. It seems to me it would practically be impossible at the conclusion of the examination of any witness for counsel to have to put any questions that might suggest themselves to them through the medium of other counsel. It may be entirely unnecessary, and no doubt will be on many branches, to attempt to supplement or to go further into the matter than may be done by the counsel for the Dominion, but I think perhaps it is a matter that might be left more or less open until one sees how far the necessity might arise for any further investigation in regard to any particular matter after the counsel for the Dominion have finished their inquiries with the witness.

Mr. Lebeuf: My instructions are not to interfere with the conduct of the case by the learned counsel representing the Dominion Government. I understand that I am here to follow the proceedings, and to see if we can be of any help to our friends, or perhaps to make suggestions. We will see by-and-bye, as we proceed, what role we can play in the examination, but at present I do not think we are to take the lead.

The Chairman: I understand your position.

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Mr. Nesbitt : All that I desire to draw to the attention of the Commission is that the Canada Life, the company I represent, seems to have occupied the principal part of the stage so far in the newspapers inquiry which has been proceeding, and we would ask an early inquiry, and perhaps the Commission would consider that it was due to us to grant us the first inquiry.

The Chairman : Is there any reason which you can suggest why you should have any preference over any other company ?

Mr. Nesbitt : None other than that I suppose we have occupied a more invidious position, being more in the glare of the footlights, than any other company at present. It is the oldest company in Canada. We desire an inquiry at as early a date as possible.

Mr. Smith : I do not come prepared to make any suggestions whatever as to the method or time of the examination, but it has occurred to me, particularly with reference to the company that I represent, that, while the investigation may, for the time being, be confined to the conduct of the affairs of one particular company, it is very difficult to dissociate the interests of every large company with the inquiry as it proceeds. The object of the inquiry no doubt will be that some steps in some shape or form shall be taken to direct and control the business of insurance in the country. Any inquiry that may possibly tend to any change in the law will naturally be of vital interest to every large company, and, in fact, to every company in the Dominion ; consequently my only suggestion will be that counsel representing the various companies, as occasion shall arise, and in the discretion of the board, shall be allowed such latitude as the circumstances or the particular subject of inquiry may arise.

The Chairman : When any question does arise respecting the conduct of the inquiry on which there is a difference of opinion, then we will have to settle it. I think that there is no necessity for making any special ruling just at present. Mr. Shepley has the conduct of the inquiry. He is responsible for its conduct. He represents the public generally, and we must not lose sight of this feature ; that this is not in any sense a prosecution. It is an inquiry, an investigation, which

must be, under the conduct of some particular counsel. But if any important question arises which it is thought expedient should be inquired into in the interests of any particular class represented here, which has not been dealt with in the first instance, we, as Commissioners, should, see that that inquiry is prosecuted until the desired information is obtained. It does not strike me at present to be a matter of very great consequence whether it is done through Mr. Shepley or by counsel specially retained to look after the interests of a particular class, always bearing in mind that we desire to conduct the investigation with expedition, we do not want to lose any time, and in order to do that, we must see that in the conduct of the proceedings there is as little confusion as possible. As suggested by Mr. Hellmuth, when any question arises in the way suggested, we will deal with it. In the meantime the inquiry is now open. The Commission suggested, without consultation with Mr. Shepley at all however—because there was no opportunity at the time for doing so—that the inquiry might be directed to the insurance branch of the Finance Department in the first instance.

Mr. Shepley : Accepting the suggestion made as to the immediate subject of inquiry, we have prepared ourselves to examine the Superintendent of Insurance, Mr. Fitzgerald, who is here, and I request the board to permit Mr. Tilley to examine Mr. Fitzgerald.

The Chairman : Very well. Mr. Tilley may examine him.

William Fitzgerald, sworn. Examined by Mr. Tilley :

Q.—What is your position? A.—Superintendent of Insurance.

Q.—And how long have you occupied that position? A.—Since the 1st of December, 1885.

Q.—Your branch is under what department? A.—It is under the Minister of Finance.

Q.—And during the whole of your connection with that branch, have you been superintendent? A.—I have, yes.

Q.—You have never occupied any other position? A.—No. Well, I should probably explain that in addition to my duties as Superintendent of Insurance I am also Assistant Deputy Minister of Finance. I have done a portion of the work which belongs to the Deputy Minister of the Department.

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Fitzgerald Ex'd

Q.—That is outside of the strictly insurance? A.—Yes.

Q.—What staff have you in the insurance branch of it? A.—Well, it is a very small staff in realty. I have two actuaries, two trained actuaries.

Q.—What are their names? A.—A. K. Blackadar; he was in the office when I joined it.

And who else? A.—And M. G. Grant—Milton Grant is the second actuary.

Q.—How long has Mr. Grant been in the Department? A.—I do not remember the date exactly.

Q.—About? A.—It is about seven years, six or seven years.

Q.—And Mr. Blackadar was there before your time? A.—Yes, he was there before my time.

Q.—Are you an actuary A.—I am not a trained actuary, no.

Q.—And other than Mr. Blackadar and Mr. Grant, there are no trained actuaries in the Department? A.—No.

Q.—Other than these two actuaries, what assistants have you? A.—There is Mr. O'Reilly, Mr. Crosby, Mr. Evans, who is a typewriter—principally typewriter and stenographer—and one who joined us about a fortnight ago.

Q.—What is the name of that gentleman? A.—Mr. Watson.

Q.—Then there is the stenographer who does strictly stenographic work? A.—Yes, and typewriting—nothing else.

Q.—And there are two other men in the Department besides Mr. Watson and these two actuaries? A.—Yes.

Q.—Your staff would be five to do the work of the Department other than the clerical work? A.—Yes, five. I have been wondering if I have forgotten any. No, that is all.

Q.—That is five besides yourself? A.—Yes.

Q.—In a general way, what do you look after, and what do you delegate to the two actuaries? A.—The portion of the work which I look after myself first, of course—and a very considerable duty it is—is during the session to look after all insurance bills, all charters. That I may say keeps me during the whole of the session, or at all events until all the insurance bills are finished. and I may say that in addition to the insurance bills, the financial bills, because I have had, as Assistant Deputy Minister, to take, or have taken, charge of the financials bills as well.

Q.—All bills then that might relate either to the insurance strictly or to the

Finance Department in any way you have taken charge of? A.—Yes.

Q.—Then that occupies you considerably during the session? A.—Well, it takes very nearly the whole of my time. Of course I find time to keep up the correspondence.

Q.—Does the correspondence all pass through you, or does the actuary sign his own letters and transmit them, or do you keep a general supervision over all letters? A.—Supervision over all letters. There are, of course, from time to time several letters which are signed by the actuaries. A company writes directly to the actuary, to Mr. Blackadar, for information upon some subject with which he is familiar, and Mr. Blackadar will sign the letter himself.

Q.—That is what I was wanting to know, whether there would be correspondence between companies and Mr. Blackadar or Mr. Grant that would not pass under your supervision or come to your knowledge? A.—Well, scarcely anything of that kind, particularly while I am in the office or while I am in the city.

Q.—It follows from what you say, I suppose, that you are in the City of Ottawa all the time during the session of the House? A.—During the session of the House, or until the financial bills are through.

Q.—It sometimes happens you would be through before the House rises? A.—Yes.

Q.—Then outside of that work which you have told us about, what other work do you give your personal attention to? A.—Well, in the examinations—

Q.—Of what? A.—The examinations of the companies.

Q.—Under the Insurance Act? A.—Under the Insurance Act we are required to make an examination annually of every licensed company.

Q.—We will probably follow that up more in detail later, but you give personal attention to it? A.—Personal attention to that branch.

Q.—What else do you do, or does that pretty well cover your personal duties and work? A.—I believe that that nearly covered everything that I found time to do.

Q.—That would keep one man busy? A.—It would.

Q.—Then do Mr. Grant and Mr. Blackadar do similar work, or has one charge of part of the work? A.—Well, a further portion of the inspections; in fact, for some years past now,

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Fitzgerald, Ex'd

the greater portion of the inspections has been done by Mr. Blackadar ; that is the accounting part of it.

Q.—The checking of the annual statements ? A.—The checking of the annual statements—I mean to say the accounts—not so much the securities as the accounts.

Q.—I rather gather, then, that you look after the checking of the securities, and Mr. Blackadar looks after the verifications of the statements ? A.—The verification of the accounts ; of course it has become necessary at times that Mr. Blackadar should also to a certain extent go into an examination of a portion of the securities.

Q.—In a general way ? A.—In a general way at first, as I have stated.

Q.—It is divided in a way, as you have said ? A.—Yes. Then you were about to ask me about the further duties of Mr. Blackadar ?

Q.—Yes. A.—Of course under the Statute we are required to value the policies of every life company once in five years. That valuation is overlooked by the two actuaries, by Mr. Blackadar and Mr. Grant.

Q.—Looked over, you mean ? A.—Well, perhaps it would have been better to say that. I make the correction.

Q.—Then the two actuaries have to check this valuation of policies which takes place every five years ? A.—Once every five years.

Q.—And both of them are engaged in that work ? A.—Well, of course they get a certain amount of assistance, too, from Mr. Crosby and Mr. O'Reilly.

Q.—A certain amount of that would be strictly clerical ? A.—Yes, but with regard to that, now, I should explain that while an examination is made every five years, there is no year in which there are not quite a number of valuations made. You see we have a very large number of companies, and we have to split them up into sections.

Q.—We will get more detail of the working of that when we come to that part of the Act. All I am asking now is just the general duties. I will just try to get some general information about the way the Department is conducted generally ? A.—Yes.

Q.—The valuation of the policies is, I suppose, for the computation of the Reserve that must be carried by the companies ? A.—Yes.

Q.—Other than that, what other duties does Blackadar perform ? A.—Preparing the copy for the printer after the statements are corrected. You see the form of the blue book that goes out every year ; preparing for the printer the copy from which the books are printed.

Q.—That is getting the annual statement of the different companies correctly set out in the blue book for the year ? A.—Set out for the printer, yes.

Q.—What else does Mr. Blackadar do personally in a general way ? A.—You mean exclusively ?

Q.—Yes, what falls to him ? A.—Because everyone of the staff has turned in and helped at everything else.

Q.—We can understand that, but in the general conduct of your office, what is he looked upon as doing from time to time, or expected to do ? A.—Well, I do not know that I can explain it more definitely than I have.

Q.—That generally covers it ? A.—Yes.

Q.—Are Mr. Grant's duties the same as Mr. Blackadar's, and, if not, in what respect do they differ ? A.—Well, there is no difference, except as to this—that Mr. Blackadar is the senior ; Mr. Grant will take his instruction from Mr. Blackadar in all matters. Up to the present there have been only one or two occasions when Mr. Grant has been asked to assist in an inspection ; that is for the purpose of initiating him, and getting him into the way of doing it. He has assisted on two or three occasions.

Q.—Then is the work of the other clerks in the Department that you have spoken of, clerical work under direction from either yourself or the actuaries ?

A.—Yes, precisely.

Q.—There would be no way of fixing their duties any better than that, I suppose ? A.—No.

Q.—Then there is no general law, general act, as I understand it, under which companies apply for incorporation from the Dominion, similar, you might say, to the Companies Act, under which they apply for power to carry on merchandise business ? A.—No, the business of insurance is one of those that is excluded from the Companies Act. Railways, insurance and banking are the three subjects that are excluded.

Q.—And there is no special act to provide for the incorporation of insurance companies ? A.—No Dominion Act.

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Fitzgerald Ex'd

Q.—Then to ascertain the companies that are incorporated by the Dominion Government, one must take all the special acts that have been passed from time to time? A.—That is it.

Q.—Could you, then, give me a list of all companies that are incorporated by the Dominion Government and would fall within the Order-in-Council that has been issued authorizing this investigation by reference to your blue book or otherwise? A.—Yes, there is no difficulty in taking the blue book and going over it.

Q.—Just take the list and have that recorded?

Mr. Shepley: I think it would be just as well to spread it on the record. A.—I understand you to mean those incorporated which are doing business; because a larger number have been incorporated and are not doing business.

Mr. Tilley: Q.—Yes, just the ones incorporated and doing business—incorporated by the Dominion?

The Chairman: What report have you there? A.—This is an old report and I had better get a later one. I have a later one here.

Q.—What is the date of that? A.—This is a report of the business of 1904: at page 149 appears the Canada Life. I might explain that this company is a company incorporated in 1847, under an act of the old Province of Canada.

Mr. Tilley: Q.—Which company is that? A.—The Canada Life, the first one that I have mentioned, but since Confederation a number of amendments have been made to its charter by the Dominion Parliament.

Mr. Shepley: Q.—Can you do it more quickly from the list of companies at page 142? A.—Yes, possibly I might be able to.

The Chairman: Q.—I think you have one page of companies there? Yes.

Mr. Tilley: Q.—That is semi-annual returns? A.—Yes.

The Chairman: Q.—Is it in alphabetical order? A.—Yes. The next is the Confederation Life. The Continental Life is incorporated by the Province of Ontario, but it holds a Dominion license. The Crown Life is incorporated by the Dominion. The Dominion Life is incorporated by the Dominion. The Excelsior Life holds a Dominion license, but is incorporated by the Province of Ontario. The Federal Life originally had a Provincial charter, but a few years ago obtained a Federal charter. The Great West Life is incorporated by the Dominion; the Home Life by the Dominion; the Imperial Life by the Dominion; the

London Life was originally a Provincial company incorporated by the Province of Ontario, but now holds a Dominion charter. The Manufacturers' Life incorporated by the Dominion. The Mutual Life of Canada, originally incorporated by the Province of Ontario, but now holds a Dominion charter. The National Life incorporated by the Dominion; the North American Life, the Northern Life, the Royal Victoria Life, the Sovereign Life, the Sun Life, also incorporated by an act of the old Province of Canada; the Union Life Assurance Company, the Subsidiary High Court of the Ancient Order of Foresters; that is the lot.

Q.—All those companies that you have mentioned are obliged under the Insurance Act to send in annual statements? A.—Yes.

Q.—Then are there any other companies incorporated by the Dominion or otherwise, with licenses in the Dominion, that are not within the act, and do not send in annual statements—any Fraternal Societies? A.—Oh, well, those are not in this particular list; so I have not mentioned them.

Q.—Can you refer to them? A.—Yes, I can tell you them. There is the Woodmen of the World, the Independent Order of Foresters, the Commercial Travellers Association, incorporated by the Province of Ontario, but holds a Dominion license. Those are the only ones.

Q.—You said they held a Dominion license? A.—Yes.

Q.—Not a Dominion charter? A.—No.

The Chairman: Q.—Provincial charter but Dominion license? A.—Yes.

Mr. Tilley: Q.—They have no special act of the Dominion? A. No.

Q.—Have you now given us the names of all the companies carrying on business in the Dominion that would fall within the Order-in-Council appointing this investigation? A.—I think I have done so; that is assuming that this list before me is correct; if it is incorrect—

Q.—There would not be much likelihood of that, I suppose? A.—No scarcely.

Q.—The way the clause reads is "The various companies chartered by the Parliament of Canada or by any Province, and licensed under the Insurance Act, transacting life insurance in Canada." Have you given us the names of all the companies? A.—I find there is one I have omitted, looking at a subsidiary list; the Grand Council of the Catholic Mutual Benefit Association, incorporated by the Dominion.

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Fitzgerald Ex'd

The Chairman: Q.—Is it a fraternal society? A.—It is in one sense a fraternal institution, but doing business upon what is known as the assessment plan.

Mr. Tilley: Q.—You have now given us all the companies that would fall within this Order-in-Council? A.—Yes.

Q.—And all the companies you have mentioned to fall within the Order-in-Council? A.—According to my construction of the Order-in-Council they do.

Q.—The result of having separate acts of incorporation would be that there would be separate provisions and separate powers for each company; there is no uniformity. A.—No, the powers are somewhat different in almost all the companies.

Q.—The powers are different in all the companies; the acts are not drawn up on any one model? A.—No. We find you cannot keep a solicitor down to a model when he draws an act.

Q.—Then why I mentioned that was, that I wanted to ask you whether, under the special acts incorporating companies, or amendments, there is any obligation on my company to send in returns to your Department or supply you with any information that is not set out in the Insurance Act? A.—Nothing.

Q.—That applies to all companies whether they come under the Act or not; there is none of them obliged to send in returns or any copy of their proceedings in any way? A.—Well, now, possibly there may be an exception to that. I think the Independent Order of Foresters is required by a special clause in their Act to send us their by-laws.

Q.—To send you their by-laws? A.—I think there is such a clause. I think there is also a similar clause in the Woodmen of the World, and possibly there may be in the C.M.B.A.

Q.—We will be able to check that now, but other than those companies you have mentioned there is no obligation on any company to send you in a return, except as covered by the Insurance Act? A.—Except as covered by the Insurance Act.

Q.—These returns that you have spoken of that are not under the Insurance Act, have you any way of checking or do you check in any way whether these returns and by-laws which you have spoken of are sent to you? A.—Oh, they are. I think there is no doubt about it. I might explain that if they did not send them in so that we might

see any changes in their by-laws, we have no means of ascertaining it.

Q.—Is there any way in which you can check whether they do or not? A.—I do not know that there is any way.

Q.—One other question on that line: is there any act or amending act relating to any company that authorizes you to make any inspection, except the inspection referred to in the Insurance Act? A.—None whatever.

Q.—So that with regard to the inspection of companies all your duties as to receiving and filing returns is covered by the Insurance Act? A.—Covered by the Insurance Act.

Q.—Taking up the Insurance Act, I see by clause 4 that all companies are required to take out a license, unless they are specially excepted by reason of some other clause in the Act; that is, by reason of being a fraternal society. Have you ever had any difficulty in that regard as to companies carrying on or attempting to carry on business without a license? A.—Oh, there are constantly companies endeavoring to do a business within the Dominion without a license. There are Provincial companies that are not licensed under the Dominion Act that carry on from time to time—or issue policies—in the other Provinces of the Dominion.

Q.—If they do any insurance business outside of the Province that creates them, they should apply to you for license? A.—I am so advised, that that is necessary.

Q.—What means have you of ascertaining to what extent that is attempted to be done? Just from hearsay? A.—Only that. Some of the other companies occasionally complain that a certain company is doing business outside of its own Province and without a license.

Q.—And when you receive such a complaint what steps do you take? Do you make it your business to inquire? A.—Beyond notifying the company, or making some representation to them, there is nothing done. I think the Dominion has all along declined to prosecute in cases of that kind, leaving it rather to the persons who are interested to prosecute the offenders. It is considered that the licensed companies there may very well be expected to keep the illegal companies out of these territory; that is the view that, at all events, has been taken.

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Q.—That view has always prevailed in your Department? A.—So far as I know.

Q.—Ever since you have been there? A.—Yes.

Q.—Can you say now whether any companies are carrying on business improperly? A.—I am told, for instance, that the Toronto Life Insurance Company, which recently had some connection with the York Loan, is doing business in the Province of Quebec. I am told so.

Q.—And any other cases? A.—Oh, I do not remember just at the moment any other case.

Q.—Is it a section, then, that seems to be violated to any extent? A.—Well, as far as my opinion goes it is not largely violated to any very great extent. Other companies than life insurance companies have been violating the provision more than the life companies have.

Q.—But we are only concerned with the life companies? A.—Yes.

Q.—You are referring to fire insurance companies and marine and loan companies? A.—Well, rather accident and companies of that kind.

Q.—At any rate, what you have said applies to the companies this inquiry touches? A.—Possibly I might be allowed to say just here that the Provinces, at all events, some of them, claim that they have a right to license a company from another Province to do business. For instance, I think the Province of Nova Scotia claims that they have a right to issue a license to an Ontario company to come there and do business.

Q.—Ohat is to say, that some of the Provinces claim that so long as the company is authorized to do business by each Province it does business in, that that is no concern of the Dominion? A.—Yes.

Q.—That they have that right? A.—Yes.

Q.—That is the view they take of it? A.—Yes.

Q.—It just occurs to me that I do not know that I asked you what foreign companies incorporated are licensed here—did you give me that? A.—I did not give you that.

Q.—Could you give me a list of them? A.—Yes. You asked me the question "incorporated here"—the list I gave you was only Canadian companies.

Mr. Shepley: It is on the same page,

142, is it not? A.—Yes. The first company, the Aetna Life, the Commercial Union.

Q.—Can you say that all the companies, except those you have already specified— A.—Well, it would not be correct to say that.

Mr. Tilley: Read the names? A.—I have given you the Aetna Life, the Commercial Union—

Q.—Could you say where each one is incorporated from memory as you give them? So far as you can you will do so? A.—The Aetna Life is incorporated by the State of Connecticut. The Commercial Life is an English company. The Connecticut Mutual Life, which is mentioned in this list, retired from doing active business in 1878. Prior to that it had done some business in Canada, and a number of policies are still in force.

Q.—Not taking new business here now? A.—No. The Edinburgh Life is a Scotch company, and it is one of the retired companies. There is the Equitable Life, incorporated by the State of New York; the Germania Life, incorporated also by the State of New York; the Life Association, of Scotland, as its name indicates, is a Scotch company, also retired; the Liverpool, London & Globe is an English company; the London & Lancashire an English company; the London Insurance an English company; the Metropolitan Life, incorporated in the State of New York; the Mutual Life of New York, incorporated in New York; the Mutual Reserve, incorporated by the State of New York; the New York Life, incorporated by the State of New York; North British and Mercantile is an English company.

Mr. Shepley: Q.—You omitted the National Life? A.—Yes, I suppose I did omit that; that is one of the retired companies. I have forgotten where that company is incorporated. I think it is Washington.

Q.—It has practically ceased business here? A.—Yes, very few policies in force. North British and Mercantile, an English company, the Norwich Union, English company; Pelican and British Empire, English company; Phoenix Mutual Life, head office in Hartford, Connecticut, and it is one of the retired companies; Provident Savings Life, incorporated by the State of New York; Royal Insurance Company, an English company; the Scottish Amicable Life Association is also one of the retired companies, a Scotch company; the Scotch

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Provident in the same way, a retired company, retired in 1878; the Standard Life, an English company; the Star Life, an English Company; the State Life Insurance Company is an American company, Indiana; the Travellers' is an American company, incorporated by the State of Connecticut; the Union Mutual Life, head office Portland, State of Maine; the United States Life is an American Company, with head office in the State of New York, incorporated in the State of New York.

Q.—Then that completes the list now?
A.—That completes the list.

Q.—I notice that under section 6a that a license shall not be granted to a company to carry on the business of life insurance in combination with any other branch of insurance? A.—Yes.

Q.—Is that section uniformly observed? A.—Since it became law, yes.

Q.—When did it become law? A.—I think in 1894. It was then put in the Statute, but for some years prior to that there was an Order in Council to the same effect.

Q.—Since the Order in Council was passed some years before 1894 that rule was observed? A.—That has been observed, yes.

Q.—Are there any companies carrying on business of life insurance that are engaged in any other lines of insurance at the present time? A.—There are a few.

Q.—What companies? A.—I can give you the names of them here in a moment, which were licensed many years ago.

Q.—Prior to the amendment to the Act or prior to the Order in Council? A.—Prior to the amendment to the Act. There is the Commercial Union, principal business is fire insurance; Liverpool London & Globe, its principal business is also fire insurance; North British and Mercantile, principal business is fire insurance; the Royal Insurance, principal business is also fire insurance. A couple of years ago the Royal commenced actively to canvass for life business, but have done but a very small amount of it. It is still correct to say their principal business is fire insurance. The Travellers is doing accident as well as life insurance.

Q.—Did you mention the London & Lancashire? A.—The London & Lancashire Life—there are two companies. There is a London & Lancashire Fire and London & Lancashire Life. The one men-

tioned is the London & Lancashire Life—it is life business only.

Q.—You did mention the Liverpool, London & Globe? A.—Yes, and the last one mentioned is the Travellers, which does life and accident business.

Q.—Are all these companies, foreign companies, licensed here? A.—All that I have given are licensed.

Q.—But they all get their incorporation outside the Dominion? A.—Outside the Dominion.

Q.—I understand from you that there is no company incorporated by the Dominion, whether before that Order in Council or since, that carries on any business but life insurance? A.—No, there is none now. At one time the Sun did accident business, and it is barely possible they may have accident risks yet on their books. What I mean to say is they issued at one time a joint policy, and I am not sure that the whole of those have gone off their books.

Mr. Shepley: Q.—They are not writing any new business? A.—No.

Mr. Tilley: Q.—The system has discontinued? A.—Yes.

Q.—With that exception, which existed at the time, there has been no Canadian company authorized to carry on any business along with life insurance business? A.—Not now; there was.

Q.—And all those companies you have mentioned procured the license here before the Order in Council was passed? A.—Those that were doing more than one kind of business.

Q.—Has there ever been any question as to the right of these companies to continue in that way carrying on other business with life insurance since the Act was passed? A.—No question can arise because in the Act which made the amendment it continued their right to that.

Q.—It continued their right to carry on business in the way they had been doing? A.—Yes.

Q.—There is a provision in section 6b as to companies having a wider field under their charter than companies incorporated elsewhere than in Canada. Is that provision of the Act uniformly observed? A.—It is.

Q.—There are no exceptions to that? A.—There have been no exceptions made since that became law.

Q.—Then sections 7 and 8 deal with the security that the different companies must deposit with the Dominion Government? A.—Yes. Section 7 refers to fire companies.

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Q.—No. "Every company carrying on the business of life insurance, and every Canadian company carrying on the business of fire, etc., shall, before the issue of such license, deposit such securities as are hereinafter mentioned to the sum of \$50,000" ? A.—Yes.

Q.—That clause as to deposit is uniformly observed and insisted upon ? A.—Yes.

Q.—You are authorized there to take securities at certain value, not exceeding par value ? A.—Certain Government securities that are named in the Act.

Q.—But other securities may be allowed by the Treasury Board ? A.—May be allowed by the Treasury Board, yes.

Q.—Has there been anything in the way of a general decision by the Treasury Board as to what securities would be accepted ? A.—Well, there has never been a decision determining what will not be accepted; what the Board determines from time to time is that a certain security will be accepted, and the rate at which it will be accepted. I think, perhaps, there are one or two decisions as to certain securities which will not be accepted. One, for instance, is as to bank stock; that is mentioned.

Q.—That is refused ? A.—That is refused; that will not be accepted.

Q.—Is there any other you can mention just in the same way as the bank stock ? A.—Railway securities, unless they are guaranteed by the Government, foreign municipal securities will not be accepted. I think these three, as I remember now, are the only three.

Q.—Any Provincial or Dominion municipal securities would be accepted, I suppose ? A.—Oh, yes.

Q.—You are required under the Act to value these securities, are you ? A.—Well, in what way do you mean ?

Q.—You are to place a value on them ? A.—For the purpose of deposit.

Q.—Yes ? Oh, yes. Unless the value of the security is known to us at the time they come in, we invariably insist upon getting a statement made as to its value.

Q.—From whom ? A.—Generally from the person who deposits them; that will show the purchase price.

Q.—That is to say, you rather assume that the purchase price is a fair standard of value, unless there is some reason for thinking to the contrary ? A.—Unless it has gone down.

Q.—Then under the Act if the value of securities decreases, you require the companies to supplement their deposit ?

A.—Yes, there is a provision in the statute to that effect.

Q.—Is that provision of the Act ever used ? A.—Well, I do not at present remember any case in which it has been. Well, it does come up, you know, almost every year in this way; all the foreign companies, all the companies other than Canadian, are required from time to time to increase their deposits sufficiently to cover their liabilities in Canada; of course these securities are gone over every year, when we make a further demand, and if any have gone down in the meantime in value, those already on deposit, then a sufficient sum is called for to cover the depreciation, along with the additional amount.

Q.—That applies to foreign companies ? A.—All foreign corporations.

Q.—Under what section ? A.—I think you will find that in section 8.

Q.—Yes, it is in section 8. Is the method of valuing securities deposited by these foreign corporations the same as the methods that you employ where a deposit is being made by a company to obtain a license ?

A.—Oh, in precisely the same way.

Q.—And are the foreign corporations limited to the securities of which you approve in the same way ? A.—Entirely. All go before the Treasury Board for approval.

Q.—Do you insist on the same class of security in each case ? A.—Entirely, so far as the deposits are concerned.

Q.—Are these securities that you take in all cases listed or not ? Are they securities upon which you can ascertain whether there is a market value, and, if so, what the market value is by any public report ? A.—Well, now take municipal securities—and a large portion of the securities we have on deposit are municipal securities—what we ascertain there, when a security of that kind is about to be deposited, is what it cost, the cost value, and that is furnished by the company, and usually certified to by the broker from whom it has been purchased. Then, of course, for the purpose of being entirely secured, a margin of five per cent. is allowed—that is to say, a security which is quoted at par is accepted as a deposit at 95, one of these municipal securities.

Q.—Then you require, as I understand, that the price at which the security was acquired by the company to be disclosed to you ? A.—Yes, to verify that.

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Q.—By the certificate of the broker who acted? A.—Yes.

Q.—Then I suppose in the very nature of things it is sometimes impossible to get verification in that way, is it not? They are not always bought from brokers? A.—No, but in cases of that kind we have usually found this; there is scarcely any description of security that we have not now on deposit from some other company. If we are not able to get it at the particular time, we have had it recently from another company, and so know its value. I would imagine there would be scarcely a case in which we do not get an accurate value of the security at the time it is deposited.

Q.—Am I to understand that these securities changed frequently, that the securities a company may deposit with you change frequently? A.—No—well, let me understand what you mean by change?

Q.—Do they take a security out and substitute another frequently? A.—Not very frequently. Still, of course, that is done occasionally. When we have on deposit a particular security, and the company gets a good offer for it, a very advantageous offer for it, they apply to the Treasury Board for permission to withdraw that security and to substitute something else.

Q.—And you say that from these securities going in and out of your office that you keep a fairly accurate idea of the value of each one of them? A.—Yes, scarcely any of the securities we do not do so.

Q.—Supposing a security were purchased at a price higher than par, and with the five per cent. off would still be over par, at what price do you take it? A.—Under the regulation of the Treasury Board we deduct the five per cent.; say it was 1.10, that would bring it 105; usually, if it is insisted upon by the company, that is the estimate of the value under the strict regulation as we have it, but as a rule they do not ever ask for it.

Q.—They do not ask it? A.—Very rarely. They would give it to us at 95 instead of 105.

Q.—Section 8, the last clause of the section, says: "And the value of such articles shall be estimated at their market value, not exceeding par at the time when they are so deposited"? A.—You were speaking of a different kind of se-

curity. Those are Government securities—those that are mentioned specially in the Act. It does not refer to those that are accepted by the Treasury Board.

Q.—"All such deposits may be made by any company in securities of the Dominion of Canada, or in securities issued by any of the Provinces of Canada, and by any company incorporated in the United Kingdom, in securities of the United Kingdom and by any company incorporated in the United States, in securities of the United States, and the value of such securities shall be estimated at their market value, not exceeding par, at the time when they are so deposited." Do you say that a different rule than that is applied to the securities which are accepted by the Treasury Board and not mentioned in that section? A.—Yes, lower down you will find it will be accepted.

Q.—"If any securities other than those mentioned are offered as deposits they may be accepted at such valuation and on such conditions as the Treasury Board directs." So that under that subsection the Treasury Board does direct that some of the securities be taken over par? A.—No, the regulation governs that. That was a slip I made there. In no case under the regulation are they taken over par.

Q.—Is there a copy of the regulation in the blue book? A.—Well, I have it here. May I just read it? "The board on the report of the Superintendent of Insurance directs as follows: That Canadian municipal securities, Montreal harbor bonds, Canadian Pacific land grant bonds, United States securities and loan companies debentures, where such securities are in all respects acceptable to the Treasury Board, be hereafter accepted at 95 per cent. of their market value at the time of deposit, such accepted value in no case, however, to exceed par."

The Chairman: Q.—Last year's re-page? A.—Roman numerals page 39.

Mr. Tilley: Q.—What year are you reading from? A.—1905. It is issued in 1905, the 1904 report.

The Chairman: Q.—Last year's report? A.—Yes.

Mr. Tilley: Q.—So that the same practice is consistently followed with respect to securities authorized by the Treasury Board as in the case of securities specially mentioned in the Act, that

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they shall not be accepted over par? A.—Yes, that is right.

Q.—And there is the condition with respect to the Treasury Board regulation that there shall be 95 per cent. of their value instead of at their market value? A.—Yes.

Q.—Then subsection 3 of that section 8 is the one that refers to the decline of the securities and what is to be done in consequence upon a decline? A.—Yes.

Q.—What means, if any, did you adopt in your Department to see whether there is any decline in these securities? Is there any system adopted? A.—Well, there is no uniform rule. We have them in mind right along and from time to time see whether securities are declining and watch them.

Q.—It is any person's duty to check over the list of securities at any time of the year, or times of the year, for that purpose? A.—Well, it has not been the practice to assign that duty to any particular one.

Q.—Then you would have, of course, a great many securities in the Department—what might they amount to? A.—There were on the 30th June, 1905, securities amounting to \$37,213,212.

The Chairman: What page is that? A.—Page 36 of the same report, Roman numerals.

Mr. Tilley: Q.—And those securities are the securities deposited by the foreign corporations and also those securities deposited to obtain a license? A.—Yes, by the Canadian companies.

Q.—And they are all of the character that you have spoken of with respect to deposits to obtain a license? A.—Yes.

Q.—And you say there is no system at any rate that is in force in the department whereby these are periodically checked over as to value, to ascertain whether there has been any depreciation? A.—No, I cannot claim that there is any.

Q.—Can you say whether there has been any call upon companies to supplement the securities deposited with you on any occasion when the company itself has not initiated the matter? A.—You mean in consequence of a fall—

Q.—In consequence of the Department coming to the conclusion that there probably has been a depreciation in securities. Has the department ever acted of its own motion to require the securi-

ties to be— A.—Except in the way I have mentioned. In going over the securities of the companies deposited, it is fairly well known whether any securities in that list have depreciated, and if so, then the amount of depreciation is asked for at the same time the additional deposit is asked for, but I cannot call to mind now any case in which, in a foreign company, the securities have depreciated, or where it was found necessary to call for an additional deposit.

Q.—Has there been any case that you can speak of now where there has been additional security brought in by the company, apart from the furnishing of new security by a company for new business? A.—You mean a voluntary deposit, not required by the Department because of the depreciations.

Q.—Where the company itself has not been the mover in bringing in additional securities? A.—I do not remember at the moment whether there is any such case. It certainly has not been frequent.

Q.—At any rate, sometimes, when the company itself is bringing in additional security, the Department finds out that some of the securities already there have depreciated and required something extra for that? A.—Yes.

Q.—But the Department, so far as you can speak of now, has never found that out on any occasion, except when the company has been the mover? A.—Well, I do not assent to that proposition either, entirely, because, while I do not remember a case, I do not say that there is not.

Q.—Probably you will turn that over in your mind, and if you can think of a case we would be glad to have the information about it? A.—Yes.

Q.—Then in subsections 4 and 5 there is provision for companies giving or depositing additional security—more security than they are required to deposit; that is the fact, is it not? A.—There is such a clause.

Q.—Do any companies avail themselves of that privilege? A.—Oh, occasionally, but very rarely; they did some years ago.

Q.—Is there any company that at the present time is in that position? A.—Well, I can probably tell you that. (Witness refers to blue book.) There are several that have a small amount over the required sum. Of course in the case of the Canadian companies the requirement for a license is \$50,000, life

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insurance. I find the Canada Life has \$57,950, the Dominion Life \$53,641, the Federal Life \$1,752, the Great West Life \$53,200, the Home Life \$57,913, the Imperial Life \$225,290. That appears to be the largest one.

Q.—At what page are you reading from? A.—I am reading now from pages 134 and 135 of the same report, Roman numerals.

Q.—What circumstances would exist that would make it beneficial to these companies to pay in more than the Government required? A.—They have an idea, whether it is true or not, that it helps them to have a large Government deposit. The canvassing agents throughout the country are able to say "Here, we have so much money with the Government for the security of policyholders." I do not know whether it helps them or not, but that is one reason assigned for their desire to place a larger sum on deposit.

Q.—That provision in the Act is a provision enabling the companies for their own purposes to deposit further securities with the Government? A.—Yes.

Q.—So that they might as well have the securities with you, if they propose to have the securities, as in their own vault? A.—A good deal safer.

Q.—We were speaking about the deposit required by Canadian companies, and the payment made by foreign companies being in the same securities, the same class of securities. What section is it that requires the foreign companies to give that class of security? Have you the Act there? A.—No, I have not the Act, but there is no particular clause in the Act. The only clause in the Act relating to security are the clauses that you have referred to there.

Q.—Point out the clauses in the Act that relate to the obligation of foreign companies with respect to the deposits with the Government you have spoken of? A.—Of the particular securities?

Q.—Yes? A.—There is nothing except in clause 8, sub-sections 1 and 2, that relates to the nature of the security.

Q.—Clause 8, subsection 1 and 2 refer only to the nature of the securities in case of deposit to get the license? A.—Yes.

Q.—What clause is it that requires foreign companies to give you this additional security? A.—I will see if I can find it here.

Q.—Is it section 10? A.—Yes.

Q.—Under section 19 there is nothing, except that they must obtain the approval of the Minister? A.—They pass before the Treasury Board as a matter of practice.

Q.—So that the practice of the Treasury Board is what governs them entirely? A.—Yes.

Q.—And the practice has been to insist upon the same class of security from foreign companies to answer the policyholders in Canada, as they require from companies asking for a license, in the case of their deposit? A.—Yes.

Q.—Then under section 8, sub-section 5, there is power in the Treasury Board to authorize the company to withdraw from the Government moneys that they have deposited in excess of the deposit required under the Act? A.—Yes.

Q.—What considerations come into play when an application is made by a company to withdraw part of their overpayment? A.—The reason usually urged is that the liabilities of the companies in the Dominion have diminished. Of course, if it is a Canadian company, where the amount of deposit is fixed and remains unalterable—that is to say, \$50,000—it is recognized that they have a right at any time to withdraw the excess over that amount; that is all the Act requires.

Q.—I understand that so long as a company keeps the deposit, or the security that is required under sections 8 and 10, for deposit by home companies, and for security by the foreign companies, that if there is an excess there, they are allowed to take it away on simply establishing that it is an excess? A.—Yes, but in the case of foreign companies they are required to establish something more than that, it is a bare excess, because we know very well that the liabilities of the foreign companies are constantly increasing if it is doing an active business, and I would never permit them to draw down to the last dollar; they must keep a considerable margin.

Q.—By reason of that being a fluctuating amount, the Government always insists on keeping on the safe side? A.—Yes.

Q.—And not paying out and taking in just according to the fluctuation, but where it is a deposit merely by a Canadian company incorporated in Canada, you say the companies sometimes regarded it as an advantage to pay in a substantial sum over the deposit by way of advertising the security that policyholders have. Then is it the

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practice of the Department to let them take that away at any time? A.—Well, we very much dislike to do it, as the companies very well know. When they apply for anything, if possible I do not give it to them as a rule, but require them to substitute something else. If they want particular securities they are asked to deposit some securities in the place of them, and the principle I have acted upon in this matter is that if it is an advantage to them, they have the advantage of it; if they have procured business on the strength of a large deposit, they should make good all the time and keep it there.

Q.—If a company has a large deposit with you, do you ever require any evidence from them as to whether they have been advertising that fact, that the deposit is with you? A.—No, I do not know that I have ever made any inquiry. Of course, I always assume that they do.

Q.—Have you at any time ever gone so far as to refuse to pay out to the company the excess over the \$50,000, or is it merely urging on your part not to do it? A.—There was a time when it was absolutely refused, but a change was made in the law, an alteration—

Q.—What charge are you referring to? A.—I think I can refer to it in almost a moment. Subsection 5 of section 8 was added at a later date; that was not in the original Act.

Q.—“If at any time it appears that a company has on deposit with the Government a sum in excess of the amount required under the provisions of this Act, the Treasury Board, upon being satisfied that the interest of the company's Canadian policyholders will not be prejudiced thereby, and upon giving such notice, and the exercise of such other precautions as may seem expedient, authorize the withdrawal of the amount of such excess, or such portion thereof as may be deemed advisable, provided such withdrawal may be authorized without the giving of any notice.” When was that subsequent date? A.—I am not perfectly certain, but I believe it was added in 1894.

Q.—Were the companies thereby enabled to get the money repaid to them more readily than before, or less readily? A.—Prior to that time they could not get it at all.

Q.—So this subsection was an enabling section for the benefit of the insurance companies? A.—Yes.

Q.—That section seems to be fairly broad; it need only be paid out when the Treasury Board is satisfied that the

interests of the Canadian policyholders will not be prejudiced thereby, and notice may be given, and the exercise of other precautions taken. Now, when an application is made has notice ever been given, and if so, notice to whom? A.—There has never been a case in which notice was given. The cases that have arisen have always been cases where a very substantial margin was still left.

Q.—Over the \$50,000? A.—Over the actual amount.

Q.—Do I understand that all that the Department takes care to prevent is that the \$50,000 shall not be diminished? If it is over \$50,000, is that all the care that is taken? A.—When I gave my answer to that last question I had in my mind rather foreign companies where it is important they should keep sufficient in Canada to cover all their liabilities.

Q.—Then let us consider the Canadian companies and their deposit of \$50,000 for the present. A company pays in \$200,000 or \$300,000 where \$50,000 is required under the Act, and then the company makes application to you to repay to it a portion or all of the excess; that has taken place? A.—It has occurred.

Q.—In a large amount such as \$100,000 or \$200,000? A.—No, I do not think so.

Q.—What is the largest amount that you now remember has been returned to a company? A.—Well, I would scarcely like to speak from memory. Say a company having a large deposit, as the Imperial here has, three or four times as much, I do not think there would be any hesitation to pay that company if it really urged it the additional \$25,000. They have a deposit of \$225,000; I would not have any hesitation in surrendering the additional \$25,000. They would still have four times as much as they are required to have.

Q.—Supposing they asked for \$150,000 out of that? A.—I do not think I would have any alternative but to let them have it. I would do it very reluctantly.

Q.—Has any such amount ever been asked? A.—I think not. I think I am quite safe in saying there has not been.

Q.—Has a company ever increased its deposit in the aggregate by over \$100,000 and subsequently got it back, either in one payment or several payments? A.—I think I am quite safe in saying no.

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Q.—And you cannot give me any idea now to what extent they have paid in and got back under this section? A.

—No, I cannot tell you. If it is really necessary, I can have a statement prepared from the records.

Mr. Shepley: I think we should have that statement.

Mr. Tilley: Q.—Probably it would be well to have the statement prepared. In the meantime what construction have you placed on the clause in the Act which says that the Treasury Board must be satisfied that the interest of the company's Canadian policyholders will not be prejudiced thereby. What interpretation have you put upon that clause, and what have you done in consequence of it being there? A.—Well, as a rule the practice has just been this: when any applications are presented, a report is made by me upon the application, stating my reasons for or against it.

Q.—What would be the nature of those reasons? A.—If there is a very large margin, and it is not required for security at all—

Q.—May it not be required if the Department know the company is advertising that deposit with the Government, may it not be required in order to bear out the advertisement? A.—Well, that is an argument I put before the applicants, but it is not insisted upon.

Q.—It is waived, is it? A.—It has never been insisted upon. I can state frankly—and I think every company will bear me out in it—that it is with the greatest reluctance that I ever gave up a dollar. I think they will bear me out in that.

Q.—I gather from what you have said that the provisions that are put in that section to enable the Treasury Board to deal with the matter on the basis of fully protecting the policyholders have never been really insisted upon in the case of an application for a return of money, except to see that the \$50,000 is kept there? A.—That is in the case of Canadian companies you are now speaking?

Q.—That that clause has only been used to protect the \$50,000, and that no broader principle has been laid down as to insisting on the representations of the company being carried out and observed by maintaining the depositing that they are representing they have? A.—No, that has never been insisted upon.

Q.—Under section 10 there is a pro-

vision that "If it appears from the annual statements, or from the examination, as provided for by this Act, of the affairs and conditions of any company carrying on the business of life insurance, that its liability to policyholders in Canada, including matured claims and the full reserve of reinsurance value for outstanding policies as hereinafter described, after deducting any claim the company has against such policies, exceed its assets in Canada, including the deposits in the hands of the Minister, the company shall be called upon to make good the deficiency, and on its failure to do so within sixty days he shall withdraw the license." That is a clause that probably in the natural order might better follow the clause about your inspection and duties, because it is the result upon your ascertaining that on an inspection the company has not maintained its assets up to its liabilities? A.—Well, that is one way in which it is ascertained. The other, and the more frequent way, is by the return of the company itself the moment we get it in. The statement itself will show the assets are not sufficient to cover the liabilities, and the demand is at once made for the necessary amount.

Q.—Without going into the nature of the examination and the returns—because they will probably come up better in the clauses that deal with those matters—has there ever been any withdrawal of the license under this subsection? A.—Not in the case of a life company.

Q.—The provision there is that a demand shall be made, and sixty days allowed to satisfy the demand. In the case of life companies, have demands been made from time to time? A.—Regularly every year, and I have perhaps 20 or 25 or 30 of them ready to come out now.

Q.—Have you any sort of summary, or could you compile any sort of statement that would indicate the amount called from year to year and from what companies? A.—Yes, it is some little trouble, but I can get it done. I have a record of it.

Q.—That is something which perhaps we should have. Having made these demands, is this 60-day limit always strictly observed? A.—Pretty closely; occasionally it happens it is a few days over, for one reason and another a little delay occurs; then, of course, they get the few days' additional latitude; that is to say, no action is

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taken, and then it comes in in due time.

Q.—Do you in the letter that you send to the companies or the notice that you send to the companies specify the amount that you require them to add? A.—I do.

Q.—And is that amount always supplied, or is there negotiations regarding that amount? A.—As a rule it is supplied without question, but occasionally there is some objection to the amount being so large, and on very rare occasions we have been compelled to reduce it. We find we have really asked a little more than the Statute demands; in fact, as a rule, I like to ask for a little more.

Q.—You like to add on a little more? A.—Yes, because I like to have more than the Statute really requires, and I do that upon this principle: the statement comes in as of the 31st December; we do not get that statement for two months; we get it on the 1st March; two months have elapsed; sixty days is allowed; so that practically from the date of the statement to the time we may expect the deposit four months have elapsed, and in the meantime the liabilities are going on. I endeavor to cover that four months. But in the event of the company objecting and saying they will not give it, I have not the means of compelling it; we have got to take it.

Q.—Where the company takes the stand that you have asked too much, and that they will not comply with the extra amount demanded, then you have to waive the demand to that extent? A.—Yes, and I would like to see that covered when the Insurance Act is amended, so that they would be obliged to put it up.

Q.—Why do you want it covered? Just because of the delay that may take place before it is supplemented? A.—Precisely.

Q.—So that you think a company that has failed to show proper assets at the time of its annual statement should be compelled to go a little further than the other companies when it comes to supplement that? A.—No, it should be in the case of every company—well, probably I do not understand your question.

Q.—Under the Act, as I understand, all companies are required to show a sufficiency of assets as far as you are concerned, merely on a certain day or

the year, that being the 31st December? A.—Yes.

Q.—The last day of the year? A.—Yes.

Q.—And except for some provision in the Act allowing you to make an additional inspection, which we will refer to later, your practice is not to see to a sufficiency of assets any other day of the year? A.—We have no means of getting at it any other way.

Q.—We will come to that, but you only look to a sufficiency of assets on the 31st December each year? A.—Yes.

Q.—You say now a company that makes some default in showing its assets should, when you do require them to, give additional assets, increases what they would have had to give on the 31st December, because two or three months would have elapsed—A.—Four months have gone, and the liabilities are increased.

Q.—But other companies that gave their returns promptly, and showed proper assets on that date, are not obliged to show additional assets four months hence? A.—There is nothing to indicate there that anything further will be required. It does not show that they are going up at all.

Q.—What you think is that it would be an amount that you fixed in your discretion that should be demanded of these companies, rather than a mathematical calculation of the amount as of the date when they should have shown assets: Is that right? A.—No. What I mean is this: We can ascertain precisely what it should be up to the 31st December. Now, it appears that the company's liabilities are going up, increasing, from the 31st December for four months, that I think I ought to be permitted to estimate the increased liability during the four months and ask the company to cover it; that is what I think.

Q.—Would that not put the company in a little different position from other companies? A.—No, if you treat them all alike it would not.

Q.—Take two companies; one of them shows exact assets over their liabilities, and the other shows a shrinkage of \$50,000 in assets over liabilities. Now, then, in the second company, according to your plan, you might say "There will be additional liabilities for the next three months; I will make this company pay in \$75,000." Are you not using that company a little unfairly as compared with the other, merely because it was short on the particular day? A.

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—Suppose it only arose from shrinkage, and that there was no increase indicated in the company's liabilities, I would not be treating them unfairly. It was a shrinkage in the liabilities that you have put. Do you mean a shrinkage in the deposit?

Q.—Yes? A.—There was no increase in the liabilities of the company; I am simply asking that company to cover what its liabilities are. The case of the other companies is where there was a gradual increase of the liabilities. We know that it has occurred, and it was fair to assume it was going on.

Q.—You say the fact that there has been an increase of the liabilities, and thereby a shrinkage of assets to answer the liabilities—the fact that that took place in the past indicates that it will go on until the assets have been supplemented? A.—Yes, quite so.

Q.—You think the act should be altered so that the amount of that additional shrinkage might be estimated and provided for in the amount required to be paid in? A.—That is my idea, and I might explain that in the case of very many companies it is of very little importance, but once in a while there is a company that has to be looked after with peculiar care, and it is for cases such as that I would like to provide. Take such companies as the Standard, there will be really, as far as I can see, no reason why that company should make a deposit at all. From the company's well-known standing, there is no doubt it will pay its liabilities for all time to come. I am not mentioning that as the only one, because there are several others that could be named. It is not for companies of that kind that I would like it, but as I know, there are companies that are very averse to putting up money, and will put up as little as they can, and with regard to that company I would like to be in a position to force them to put up.

Q.—Where a Canadian company is in question, where does that additional asset come from when demanded? You demand additional assets? A.—Yes.

Q.—You say, "Your assets do not amount to your liabilities?" A.—Yes.

Q.—And you say, "I want you to show additional assets;" where does that come from? A.—Are you speaking of deposit?

Q.—I am speaking of section 10 where the assets of the company must equal the whole liabilities of the company? A.—Yes.

Q.—Where does the additional asset that you require come from? Where can the company get it? A.—You are

speaking now of a case where it is so close that the assets are equal to the liabilities?

Q.—The assets, we will say, are less than the liabilities, say \$50,000. You notify the company, "Your assets are short \$50,000, and I require you to make the assets equal to the liabilities by the addition of \$50,000"; where would that come from? A.—I presume they would have to call up additional capital to get it. I do not know any place else to get it. Borrowing would do no good. It would get the money, but they would have to increase liability; so there is no way to do it but by increase of the capital.

Q.—In your computation you do not regard the capital stock of the company as a liability? A.—It is not a liability under the Statute.

Q.—It is not one of the liabilities you must regard at any rate? A.—No.

Q.—Then, when you are supplied with the evidence of additional capital, what care do you take to ascertain that it is not a loan? A.—I have never had occasion to take into consideration a case of that kind, but if it comes so close, where the assets and liabilities are about the same, the chances are that that company's license would likely be withdrawn, and they would require to go into liquidation. I have not known a case where it has been necessary to ascertain where the funds came from. The case you put has not arisen.

Q. Tell me how the company proceeds to satisfy you that the shortage of assets has been made good? A.—Well, as the case has not arisen, but I am saying how I would endeavor to make them proceed.

Q.—You have in the past required companies to make good a deficiency of assets, have you not? A.—In the case of a Canadian company?

Q.—Yes? A.—I do not think so; I do not remember any such case.

Q.—You were speaking of foreign companies, were you? A.—Foreign companies.

Q.—Who must maintain in Canada? A.—Who must maintain assets in Canada.

Q.—You were speaking entirely of requiring foreign companies to show additional assets? A.—Assets in Canada; that was the point we were discussing.

Q.—Then we were at variance, because I was asking you under this section 10. You spoke of certain notices that you now have ready to send out? A.—Yes, to foreign companies, to companies other than Canadian.

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Q.—Not to make good or show general assets equal to their liabilities, but simply to show in Canada assets equal to their liabilities? A.—Yes, precisely, that is what I thought you were asking.

Q.—What I intended to ask you was whether, in the case of Canadian companies, companies incorporated here, you have in the past by your inspection, or by the statements sent in to you, discovered that the company had not assets equal to its liabilities within the meaning of section 10? A.—I cannot remember a case of a Canadian company where this has occurred.

Q.—I suppose your records would show that? A.—They would.

Q.—And we can ascertain that? A.—Yes.

(Adjourned for one hour.)

(After adjournment.)

Q.—Before adjournment we were considering section 10 of the Act, and you were stating what had occurred under that section regarding American or foreign companies, and there had been some confusion between that and the Canadian companies? A.—Yes.

Q.—You were to consider whether there ever had been any deficiency of assets in connection with any Canadian company. Have you considered that since? A.—I have not called to mind anything since; in fact, I have not been able to go to the office to consult any of the documents, but I do not call to mind any.

Q.—So that there is nothing different to what was said before the adjournment on that subject? A.—No.

Q.—You will be able to verify by tomorrow? A.—Oh, yes, I think so.

Q.—Subsection 2 is the provision that you referred to before, requiring the foreign companies to deposit the security with the department, or to have the same invested in trust for the company? A.—Yes.

Q.—What plan was pursued under that subsection by the foreign companies? A.—The bulk of them make their deposits with the Receiver-General. There are, however, a few who have appointed Canadian trustees and vest certain portions of their funds with them.

Q.—What companies do that? A.—Well, now, I think probably I can tell you from memory. There is the London and Lancashire Life, Standard Life, Pelican and British Empire, the Travellers, the Mutual Life of New York, the New York Life, the Equitable Life, Mu-

tual Reserve Fund of New York. I think those are all.

Q.—Those companies vest the assets in trustees? A.—In trustees, a portion of them. Of course there is a considerable portion still on deposit with the Receiver-General.

Q.—So that their assets are secured probably in both ways, by deposit as to part and in trustees as to the balance? A.—Yes.

Q.—What trustees do they appoint; certain persons or certain companies? A.—Persons, always individuals except in the one case. In the one case there is a trust company in addition to a couple of individuals.

Q.—What case are you referring to now? A.—I am referring now to the trustees. The Royal Trust Company is one of the trustees for the Travellers.

Q.—Along with? A.—Along with Mr. Parkin, and I am not absolutely certain who the third one is.

Q.—The other companies you have mentioned vest their assets in officers of the company or in strangers to the company? A.—Usually there is one officer. I probably had better answer that by getting a list of the trustees for you, if you will allow me to do that.

Q.—Yes? A.—Giving the different companies and the names of their trustees.

Q.—Then we can see just whom they appoint? A.—Yes.

Q.—Perhaps you will be able to indicate on the list the relation of the trustee to the company? A.—Yes.

Q.—We will give you a note of these things? A.—Yes, if you will give me the several points you want I will attend to it.

Q.—Then the Statute contemplates that the trust deed shall be approved by the Minister? A.—Yes.

Q.—Is the form of trust deed settled? A.—The form of trust deed is always settled. The process is this: the company sends a draft of the deed with the names of the proposed trustees sometimes in it; they send the names of the trustees first for approval by the Minister. That, however, is not always the case; they sometimes submit that draft and the names at the same time. Then we submit that draft to the Department of Justice for approval. After it has been approved by the Department of Justice the draft is sent back to the company and is engrossed and executed by

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the company and by the trustees. It is then sent to Ottawa and is executed by the Minister of Justice.

Q.—To show his approval of the trust deed? A.—To show his approval; that is the process.

Q.—Are the provisions in the different trust deeds that are now in effect the same? Could you give us a standard form or not? A.—I can bring you, if necessary, the original deed, or I can bring you the draft.

Q.—Would that be applicable to all the companies? A.—No, it would not, because in the case of the earlier companies the deed is somewhat different from the later companies.

Q.—In what respect? A.—Well, it is a little probably more stringent in two or three particulars.

Q.—Was it the result of finding some loophole in the trust deed? A.—Finding a possible loophole.

Q.—What was it? A.—One of the things that I now have in mind was this; the later deeds provide that where securities held by the trustees are such that they can be registered, that they must be registered under the names of the trustees; that is to say, they are not at liberty to keep bearer bonds.

Q.—They must be recorded documents if they can be recorded? A.—If they can be recorded they must be recorded.

Q.—What documents would that apply to? Would it apply to debentures? A.—It would apply to debentures.

Q.—To see that they are registered if they may be registered? A.—Yes, it would apply to debentures, principally of course to debentures.

Q.—Are there then substantially two forms, one form that was in existence prior to that change and one after the change? A.—Yes.

Q.—Can you get us one copy of a draft of it? A.—I may not be able to get you a draft, but I can bring you an original deed, if you will undertake to take care of it.

Q.—A copy would be sufficient for our purposes and better? A.—I may have to have a copy made. That is rather a long process, and we are now short-handed.

Mr. Shepley: You had better let us have an original in the meantime—one of each.

Mr. Tilley: Then after the trust deed is approved, is there any other control

or investigation of this by the Government? A.—You mean as to the securities? The trust deeds provide for the trustees furnishing to us a list of the securities which they hold under the deed.

Q.—At any time on demand? A.—No, not any time on demand, but for furnishing us a list at the end of the year, on the 31st December, and practically, I suppose, any time it was demanded it would be furnished. I have no doubt it would.

Q.—We will take that up when we have the deeds. Under section 18 of the Act you must publish quarterly in the Canada Gazette a list of the companies licensed under the Act, and the amount of the deposit made by each company; is that done? A.—Yes.

Q.—Uniformly and regularly? A.—It is.

Q.—And you added the names of any companies that obtained licenses in the interval? A.—In the interval between the publication of two statements a notice is published in the Gazette.

Q.—Showing the granting of the other licenses? A.—Yes.

Q.—Section 19 is the section that provides for the annual returns that are to be made by companies. Are forms supplied by you to the companies for the purpose of making these annual returns? A.—They are, yes; that is forms for the Canadian business only; that is the whole of the business of Canadian companies and for the Canadian business of foreign companies.

Q.—And when are those forms sent out? A.—They are usually set out in November, sometimes as early as the end of October, but usually in November.

Q.—What forms do you send to a company? A.—I have specimens of them.

Mr. Langmuir: You said to Canadian companies and to what others?

Mr. Tilley: And to foreign companies for their Canadian business only.

Witness: Yes. Here is the form sent out to Canadian companies. (Exhibit 1), and if they do foreign business as well, that goes with it in relation to a foreign company. (Ex. 2.)

Q.—Number one is sent out to all Canadian companies? A.—Yes.

Q.—Exhibit 2 is enclosed with number if the Canadian company does a foreign business? A.—Yes. Now, there are some foreign companies to which that form

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(Ex. 3) goes; that is to say companies that were in business before the 31st March, 1878, and this document (Ex. 4) goes to companies other than Canadian that commenced business in Canada since the 31st March, 1878.

Q.—Why is that distinction made between the two foreign companies? A.—The reason is this: that foreign companies which were in business before the 31st March, 1878, are not required to maintain the Reserve applicable to their foreign business up to that date. Commencing with 31st March, 1878, they are required to keep sufficient funds on deposit to cover their liabilities in respect of all policies since 1878. As to policies before that date they are not required to keep it up.

Q.—That is under section 10, sub-section 4? A.—Yes, it is under sub-section 4 of section 10.

Q.—You sent one of these forms (Ex. 3) to the companies that were doing business before 1878? A.—Yes. We sent No. 4 to those that commenced business since the 31st March, 1878.

Mr. Shepley: Q.—And to the others in respect of their business since that date? A.—Yes. But the one form has the two branches in it.

Mr. Tilley: Q.—Exhibit 3 covers what is in number 4 for that part of their business? A.—Yes, it is divided into two sections.

Q.—What is number 5? A.—This form is sent out to certain companies under subsection 3 and 4 of section 20.

Q.—That is Exhibit 5? A.—Yes. That goes to foreign companies—to certain of the foreign companies, not to all of them; and this is the form sent to Canadian companies in which to enter their mortgages. (Exhibit 6.)

Q.—Are those all the forms that are supplied to Canadian as well as foreign companies? A.—Yes, that covers the whole of the Canadian business; and, of course, to the foreign companies for their foreign business we do not send forms. We do not send forms to the foreign companies for their foreign business.

Q.—That is to say, you have no information regarding the foreign business of a foreign company, confining yourselves strictly to the Canadian policies issued? A.—Oh, no, we get forms from them, but we do not send them forms. They prepare their statement; that is covered by a section of the Act, section 20.

Q.—Section 20 covers the return to be made by a foreign company? A.—It is in the first clause of section 20, "Such statement as to its general business shall be in such form as the company usually submits to its members and shareholders." There is something before that. "Such form as the company is required by law to furnish to the Government of the country in which its head office is situate, and where such company is not required by law to furnish a statement to the Government of the country in which it is situate, then such statement as to its general business shall be in such form as the company usually submits to its members and shareholders." Well, there is no company now to which that last clause applies. It was put in originally with reference to one fire company.

Q.—So that there is no life company to which that last clause applies? A.—No.

Q.—All the life companies that are doing business here, and the foreign companies, are required by their own domestic acts to supply returns to the Government? A.—To submit statements, yes.

Q.—You adopt the form that they supply to their own Government? A.—That is a requirement of our Act; they send it in in that form.

Q.—Other than those forms, are the companies required to give you any further information than would be disclosed by completing the forms? A.—The companies are required for five years to send us a list of their policies for valuation.

Q.—That is under the section about valuing policies? A.—Yes.

Q.—Is there anything else that the company is bound to supply to you? A.—There is one clause in it somewhere or another which authorizes the Superintendent to ask them certain questions. I have forgotten what section of the Act that is, but there is such a section in it.

Q.—What section are you referring to? Would that be "The Superintendent and his duties"? A.—No, it is not there.

Q.—Is it 25a "For the purpose of carrying out the provisions of this act the Superintendent of Insurance is hereby authorized and empowered to address any enquiries to any insurance company licensed under this Act, or to the President, Manager, Actuary or Secretary thereof, in relation to its assets, in-

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vestments, liabilities, doing or condition, or any other matter connected with its business or transactions, it shall be the duty of any company so addressed to promptly reply in writing to such enquiries." So that other than the right of the Superintendent to require further information or statements under that section, everything is covered by these forms which you supply them with? A.—Yes.

Q.—When are these forms required to be returned to you completed? A.—The forms of Canadian business are required to be returned not later than the first day of March in each year.

Q.—And is there any penalty for not furnishing them at that time? A.—There is a penalty of \$10 a day for each day's delay after that.

Q.—Is that a penalty that is ever enforced? A.—It is always enforced.

Q.—Do you actually make companies pay you the \$10 per day if they are in arrear? A.—I do

Q.—So that that clause in the Statute is adhered to by you in your treatment of the companies? A.—Yes, it is.

Q.—Is it a penalty that is incurred very often by companies? A.—Very frequently; two companies have incurred the penalty this present year.

Q.—What length of time are they in arrear in handing in the statement? A.—One company was one day and one company was two days; so that we received \$30 in penalties, \$10 and \$20, this present year. There have been other years where it was much larger. There was one company, not a life company, which was in default some thirty days some three or four years ago.

Q.—Is there any tendency to delay the returns, or any objects in delay that you have discovered? A.—Oh, no, it is purely accidental.

Q.—Carelessness? A.—Or something of that kind.

Q.—On the receipt of these forms, what do you do with them? A.—Now we prepare an abstract of the business. That is one thing I forgot to bring with me, a copy of that abstract—an abstract of the Canadian business of the year.

Q.—Of each company separately? A.—No, they are all embodied in the one abstract, a short abstract of a few pages.

Q.—There is a form for that? A.—There is no regular form. It varies from year to year, according to the business.

Q.—You make a compilation or statement showing all these results in totals so to speak? A.—Yes.

Q.—Showing all the business of the Canadian companies as they have returned it to you? A.—Yes.

Q.—Canadian business of all the companies? A.—Yes.

Q.—Then, having done that, what do you do next with them? A.—With the statements?

Q.—With the statements or returns your receive? A.—Well, the next proceeding is to examine and check them as far as possible. After the abstract is published it usually goes to the printer's hands within the first five or six days of March. This year it went on the 5th March, and we have received most of the proof for correction, and we hope to have it issued in another week, a full report. Then of course that is distributed to the members of the Commons and the Senate, and a number of copies are printed and distributed amongst the companies.

Q.—That is all done on the basis of the statements that are sent in without any correction at all? A.—Without any correction at all, and so stated on the outside of them, that they are subject to correction.

Q.—You will be able to get us a copy of that summary for this year, will you? A.—For this year—it depends wholly on the printer; we have done all that we can to get it ready.

Q.—After passing that stage, what did you do next? A.—The next is to commence the inspection, the verification of the accounts at the head offices.

Q.—That is at the office of the company? A.—Head office of the company.

Q.—How do you proceed with that work? A.—Well, of course the accounts are first taken up; that is the verification of the various items in the statement. That part of the work, I may say, is generally done by Mr. Blackadar, for the reason that I am occupied here during the session when it is necessary to do it.

Q.—He does that work first before you do any verification at all? A.—Yes, that is the rule.

Q.—And the statement is the statement of the 31st December of the preceding year? A.—Yes.

Q.—What would be Mr. Blackadar's duty in that regard? To what extent does his inspection of the books or the accounts take place at that time? A.—Well, of course the object is to verify

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and see if the statement which has been sent in by the company is accurate according to their books. If it is not accurate corrections are made so as to make it accurate.

Q.—Have you one of the statements that would usually be used? A.—This is a Canadian Company's statement (Ex. 1).

Q.—Does he make any such inspection with respect to foreign companies? A.—Yes.

Q.—At the Head Office of the Company? A.—At the Head Office in Canada.

Q.—The general statement of the foreign company's business that it is required to send to its local government—to what extent is that checked? A.—It is not checked.

Q.—So that all that he checks is the Canadian business of a foreign company? A.—The Canadian business.

Q.—You say he would take what is usually used. Exhibit 1, and he would take item by item through that statement? A.—Item by item through that statement.

Q.—And examine the books of the company and check the statement by the books? A.—Check the statement by the books.

Q.—That is check the result that is in the books, the total in the books, or does he go through the items that that goes to make up the total? A.—He goes through the items that make up the total, not minutely, of course. For example, take one of the items there.

Q.—Value of real estate, that is one of the items? A.—Well, that is a portion of the work that is usually taken up by me a little later. He verifies as to the real estate the figures shown in the real estate ledger as the total.

Q.—“Amount secured by way of loans on real estate by bond or mortgage, etc.? A.—That would be another item. The total as shown in their mortgage ledger would be all he would verify in the meantime.

Q.—These second mortgages would be the same way? A.—Yes.

Q.—He would just see that their mortgage ledger purported to show that amount of money on loan? A.—Yes, that the item returned there corresponds with the item in their own books.

Q.—Amount of loans secured by bond or stock or other marketable collaterals? A.—Well, he takes that in the same way, the amounts only.

Q.—And then you make a more detailed examination later? A.—Yes.

Q.—“The amount of loans as above on which interest is overdue;” that would be another item he would take straight from them? A.—Yes, that is returned, and generally a list is given of the principal mortgage upon which the interest is overdue.

Q.—And as to the stocks, bonds and debentures—he would take the company's total for that? A.—Yes.

Q.—“Amount of cash at head office?” A.—That is an item there is no way of checking, cash in the head office, because it is gone; you have only to take the entry for it. It cannot be checked.

Q.—“Cash in the bank?” A.—That can be checked by means of the bank book.

Q.—And that would be taken as conclusive on that point? A.—Yes.

Q.—And Bills Receivable? A.—They would be counted if there were any.

Q.—Bills Receivable would be produced? A.—Yes.

Q.—To him or you? A.—Well, generally they would be to me later on, or to him; of course, there are cases in which he does not count the securities.

Q.—“Agents Ledger balances?” A.—Well, a list of those is usually produced; in fact they are usually contained in a list in a book, and the total of them he would examine, and very likely go over the list and see whether they were good or bad. That is pretty readily told by whether it is an active account or not. If the agent is actively doing business, making payments from time to time, it may be considered a good account.

Q.—If it is an account that has been standing a length of time, he looks to see how long it has been standing, an uncollected balance from an agent? A.—It would be taken out then, deducted.

Q.—If Mr. Blackadar came to an item under the heading of “Agents Ledger balances,” that he thought was not a real asset, would he make a change in the statement itself? A.—Let me look at that blank for a moment. This is the fire form, but it would be usually so much deducted as carried.

Q.—At the foot of the statement? A.—Yes, at the foot of the assets.

Q.—If Mr. Blackadar differed from the company as to whether a certain item was an asset or not, what would he then do? A.—In our experience that has not occurred. I think as a rule it may be said that when exception is taken to an item, Mr. Blackadar or myself, whoever is making the examination, is able to satisfy the company it should not be there, and in that case they will assent to its deduction.

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Q.—What I was asking you, if a deduction is determined upon by you the change is actually made in the return?
A.—Actually made in the return.

Q.—That is, the return is altered? A.—It is altered in red ink.

Q.—And so far as the return is concerned from that date it is assumed to be altered? A.—As altered.

Q.—The company's old return then is disregarded? A.—Is disregarded to that extent.

Q.—And any further returns that are published would be the altered returns, as you have made a change? A.—Precisely.

Q.—“Due from other companies for losses or claims on policies of the company reinsured.” How would he check an item such as that? A. Well, in the first place, of course, he would probably take the item as shown in the books as being accurate. If there was any doubt about it the way of checking it would be to enquire of the company that was said to owe it; that would be the method of checking it. We have never heard of anything being represented as due which was not actually due.

Q.—“All other ledger assets;” how is that checked? A.—Does it not call for details?

Q.—Detail of separate schedules? A.—A list of them is made with all other assets, and each item in that schedule would be checked by the books.

Q.—In doing that would Mr. Blackadar's duty be to take an account as being correct as he finds it in their book, or would it be his duty to see vouchers for any accounts, or check the correctness of the items there? A.—Unless he had reason to suppose that there was something wrong with some of the items of the account he would not be expected to look at the vouchers. It will be assumed that the company's auditors, when they have gone over and passed the accounts, would see to any matters of detail of that kind.

Q.—Then, shortly, he takes their books for the different items that are in them as being correct, unless there is something he thinks is suspicious and that

Q.—He does not purport in any way to audit the books of the company? A.—Oh, no. That would be an entire impossibility. If we had ten times the staff it could not be done.

Q.—Then there is no Government audit based on these statements that are sent in to you at all? A.—There is not in the ordinary sense a Government audit.

Q.—There is no Government audit?
A.—No.

Q.—The investigation merely being to verify the correctness of the statements as being in accordance with their books? A.—With their books.

Q.—And any item that suggests itself to Mr. Blackadar in going through these statements he looks into further or not, as his wisdom would lead him to do? A.—That is the only rule.

Q.—To what extent in these annual statements of assets made by companies are corrections made? A.—I think by actual count the number of corrections made last year was in the neighborhood of 600 corrections; that is taking the whole of the companies.

Q.—Taking all the companies, there would be 600 corrections made in their statements in the inspection of 1905?
A.—Yes, made in 1905.

Q.—Would that be the work of Mr. Blackadar only in this verification of statement of assets made by corrections made by you as a result of your investigation? A.—Well, largely and principally the corrections made by me, because as a matter of actual experience there are not many errors in the securities.

Q.—In the securities; that is to say, that in your departmental inspection, the checking over of the securities, you find very little change? A.—Not many corrections to be made, and, of course, it sometimes happens where a correction would be necessary the document has already been published.

Q.—That is the blue book? A.—The blue book is already out.

Q.—How would that occur? A.—It would occur from the book having been printed before the inspection is made; that is how it would happen. You are aware that there is a constant cry to get these books out earlier; everybody is crying, the insurance companies, and so on; they want them for their canvassing purposes, and in the effort to get them out it is found that a certain portion of the inspection must necessarily be left undone until a later date.

Q.—What I understand you to say is that the statements as they appear in the blue book are not, all of them, statements that have been checked by your Department before they are printed? A.—Not fully checked.

Q.—Or not partially checked? A.—There are none of them that are not partially checked; none of them in which the accounts are not checked to show that the items agree with their documents.

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Q.—But sometimes there happens—
A.—Sometimes there will be slight differences in the assets.

Q.—That is in the actual securities?
A.—In the actual securities; sometimes it so happens.

Q.—There would be changes made as a result of your part of the work? A.—Yes.

Q.—Of Blackadar's? A.—No.

Q.—Is Blackadar's work always completed before the statement gets into the blue book? A.—I do not know now of an exception. I do not know at present of a case where it has not been; still it might be barely possible that one company had not been visited up to the time the report was sent out; it might be so.

Q.—Tell me how long is it from the time the statements are received in your office up to the time the blue book is printed? A.—That varies somewhat. Of course, the bulk of the statements are in on the 1st of March; they are due on the 1st of March; that is all statements of Canadian companies. The statements of foreign companies, there are none of them due until the 1st of June, and then with reference to the English companies, certain of them are not due until the 30th of June; so that we have not a full statement ready to send to the printer until the 30th of June. The whole of the copy is in the printer's hands always very early in July. But we have not as a rule been able to get the completed blue book from the printer until September, sometimes October.

Q.—September and sometimes October? A.—Yes.

Q.—When you send the book to the printer, you sometimes proceed with your part of the work after that date? A.—It sometimes so happens.

Q.—Are any corrections that you make from that time on and before the book is completed shown in the blue book? A.—If in time to get them into the blue book before it is absolutely completed the changes are made.

Q.—How long does Mr. Blackadar's work take each year in his verification? A.—He is rarely through until the 1st of July.

Q.—And when does he start? A.—He is at it now, commences as soon as the copy for the abstract goes to the printer.

Q.—Is that his work to get that copy ready for the printer? A.—He assists in it, everybody helps.

Q.—Nothing is done towards inspection until the copy goes to the printer?

A.—Of course, there are exceptions to that rule. The statements are not due till the 1st of March, and if we get the statements earlier, and there is nothing to occupy myself or Mr. Blackadar here, we go and get so much done, even before the abstract goes out.

Q.—But usually that is not possible? A.—No, it is not.

Q.—Because the statement is not due till the 1st of March, and it goes to the printer very soon after that? A.—Yes.

Q.—The rush is to get that to the printer? A.—Yes.

Q.—Is that done pursuant to any section of the Act? A.—The abstract?

Q.—Yes? A.—No, there is no section in the Act which requires specifically the abstract. It has grown into a custom from the start, and there has always been a call for it, and it has always been followed out.

Mr. Shepley: Q.—When you speak of the abstract, you are speaking of a compendious book containing the information of several returns? A.—Yes. Should be followed up? A.—Yes.

Mr. Tilley: Q.—Running them into one? A.—Yes, giving details, the total results and total amount of business, and so on.

Q.—Mr. Blackadar would start about the second week in March, would he? A.—As much earlier as he can. He started on Monday last this year.

Q.—That would usually be about the time— A.—Usually about that time.

Q.—How long does his inspection take of the larger companies in respect of each company? A.—That is very difficult to answer. Some of them may be done readily enough in a couple of days; one company, I remember, last year, he spent five days at in Toronto, one, I think, in Montreal, where he spent somewhat longer. Of course I never have actual track of this.

Q.—How long does it take him to complete all the companies? A.—I think I stated he is never back much before the 1st of July; he may be back for a little while for a time.

Q.—It takes about four months? A.—Yes, and really four months of very hard work, very continuous.

Q.—Has he an assistant in that work? A.—Heretofore he has not had any regular assistants in that work.

Q.—He does all the work himself? A.—Yes.

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Q.—When do you start your work of checking the securities? A.—Well, if there is any statement that is in before the 1st of March and before the House meets, I take it up. I have already, I think, examined one company in Toronto this year before the 1st of March; it was done in January and February as a matter of fact. Then so soon as I can get free from my duties in connection with Parliament then I go at it. That sometimes happens as early as the middle of May, even a little earlier, but usually not until about the 24th May or 25th, or even up to the 1st of June; and then from time to time I am obliged to return to something that was left unfinished here, which brings me back from Toronto, and I have to drop it for a time.

Q.—So that the work of actually going over the securities and checking them does not commence till the latter end of May usually? A.—No, it does not as a rule.

Q.—And is that work ever delegated by you to some one else, or do you always perform it yourself? A.—Well, as I think I have stated—I intended to state it, however—that Mr. Blackadar sometimes examines the securities of some companies.

Q.—Any particular companies? A.—Oh, no, none in particular.

Q.—Then your examination would be, you say, somewhat interrupted from time to time by requiring to come back to Ottawa on business of the Department? A.—Yes, it has been.

Q.—And it is not always completed until the blue book is printed? A.—It is not always.

Q.—That usually being in September? A.—In September or October.

Q.—So that the result is that the assets of the companies, the actual securities of the companies—some of the companies, at any rate—would go unchecked from December, the date at which the statement is made out, until September or October of the next year? A.—It might so happen.

Q.—They might go unchecked for that time? A.—Yes.

Mr. Tilley: Then as you said in some cases there are charges that do not find their way into the blue book at all? A.—Yes. They are rare cases—very rare.

Q.—And that applies to the assets and securities. Now, how do you pro-

ceed to check the assets and securities held by the company? A.—Well, suppose we commence with mortgages. There is a larger amount of mortgages than of any other.

Q.—Before you go into that phase of the matter, is this statement that is put in as exhibit 1—is that supposed to comply exactly with the schedule form A in the Act? A.—Oh, it is prepared from a schedule marked A. There may be slight differences, and possibly are. These differences are accounted for by another clause in the Act.

Q.—Which clause? A.—I may have difficulty in finding it. Sub-section 6 of section 19. Under that clause certain changes have been made in the form with the view of getting more perfect information from him.

Q.—Can you say when the form was changed, and what the reason was? A.—Oh, no; a gradual change.

Q.—As experience taught you—an improvement you thought? A.—Yes.

Q.—You cannot call to your mind the particular occasion for any change we have here? A.—No, I cannot. It is sub-section 6 of section 19 of the Insurance Act.

Q.—You were going to speak about the way in which you checked the real estate mortgages. A.—This is one of the forms which I sent out. I now refer to exhibit 6. This schedule calls for the date of the mortgage, the rate of interest, then the record of the mortgage, that is the Province, county where it is, and so on, the value of the land mortgage, the value of the buildings, and the amount of insurance. Then the location of the property, with a brief description of it, to show the number of acres, and so on. Then opposite that, and at the end of any particular year the amount of principal, the amount of fire or life premiums that are charged against the property, the overdue interest and accrued interest.

Q.—What do you mean by fire or life premiums? A.—It sometimes happens many of these mortgages are made to secure or contain a provision that in the event of a life premium upon a certain policy not being paid it becomes a lien upon the land. The company treats it as paid, and it is secured by the mortgage.

Q.—That would be a loan to the policyholder himself? A.—It is. It is by a mortgage upon his land.

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Q.—Is that a method of investment that is used by certain particular companies, or of all companies? A.—I believe all of them more or less.

Mr. Langmuir: The mortgage generally provides for that? A.—Oh, yes.

Mr. Tilley: That the premium shall be a charge upon the land if not paid? A.—Yes. And with regard to the fire premiums, in all the mortgages there is provision that if the company pays the fire premium it is added to and is a charge upon the land. I have then a complete list of mortgages. Every mortgage is produced. I examine the amount of principal shown in the mortgage, and compare that with the account of that mortgage to see that it agrees with the mortgage ledger. Then I see that the rate of interest agrees with the rate of interest entered here by looking actually at the mortgage. Then the next thing is the solicitor's certificate of title. There is always produced by the solicitor a certificate that he has examined the title, and that it is good for the purposes of the company. The next that is produced is a valuation showing the value of the land, and the value of the buildings particularly, and lastly the fire insurance, and that is checked by an actual production of the fire policies. Then the same process is gone over with every mortgage in the lot.

Q.—Is this book you produce a continuing book from year to year? A.—Yes. For instance, there is a column in which will be recorded the figures as at the end of 1905. There is a column for 1906, 1907, 1908, '09, '10, '11, '12, and so on for ten years.

Q.—That, you think would be the life of probably the longest mortgage? A.—Yes, if it is longer than that they will have to enter it up again, and start afresh.

Q.—Then, having checked the principal and rate of interest, and so on, on the first inspection, that renders it unnecessary to check? A.—The same mortgage is not checked a second time.

Mr. Langmuir: You examine the mortgage ledger to see about payments on account of principal? A.—Oh, yes.

Q.—So that the balance is shown here? A.—Yes, sir. We check that and compare the figures here with the figures in the book.

Mr. Tilley: You compare the statement of accounts shown there each year? A.—Yes.

Q.—That is the statement of account in the books? A.—Yes.

Q.—And do you call for the production of the mortgage every year? A.—Oh, no, never after it is once examined.

Q.—You do not see the mortgage a second time? A.—No.

Q.—So long as it is on the books and not ruled off you assume the mortgage is still with the company? A.—Yes.

Q.—And then you check the account only? A.—After the first examination of the mortgage.

Q.—Then does that cover all the inspection you make of mortgages? A.—Yes, that is about all.

Q.—Then what, if any, mistakes have you found in your experience in checking over mortgages in that way—what is the character of any mistake? A.—I do not know that I have ever found a mistake in the figures. Occasionally I found a slight discrepancy in the value: the valuation produced not bearing out the figures contained in the schedule. Sometimes the valuation may be larger. It is more frequently larger than it is the other way.

Q.—More frequently the valuation is more than they have stated? A.—Yes, more frequently. Sometimes it will be found that the fire policies are not exactly the same as contained in the schedule.

Q.—Have you ever found that any mortgages are omitted from the return? A.—No, I think the companies will take care of that.

Q.—You always assume that the companies are showing the most assets they can? A.—That is the assumption.

Q.—That they are showing the most assets they can, and your checking is rather from the point of view that they have what they say they have than that they have anything they have not said anything about? A.—That has been in the past. I may hereafter have to look for something further though.

Q.—But that is the way it has been in the past? A.—Yes.

Q.—Is any record kept of mortgages by the companies in any way that you could check that by, as to whether there are mortgages in existence, or any assets not shown in the statement? A.—I suppose any company that has assets not shown in the statement would have an entry of them some place in their books.

Q.—Do you in any way go through their books except in the way of having the statement before you and calling for the item by the books of the company

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that warrants the statement in the return? A.—That is a question that can best be answered by Mr. Blackadar, for the reason I have already given you, that he does that part of the work.

Q.—He compares the statement with the books, and you only go there to see that the actual documents are in existence? A.—Yes, and that they are good—what they purport to be.

Q.—Then, to what extent do you concern yourself with the value of property, for instance, on which mortgages are taken? A.—Well, of course, I have no means of going behind the valuation.

Q.—But you say you look to see what the value is. What effect does it have with you whether you find the value to be high or low or anything else? A.—If I find it to be low, and that it was a doubtful mortgage, I simply call the attention of the company to it, and that they had better look after that particular mortgage.

Q.—That is to say, you have regard to the value just from the standpoint of whether the mortgage is really a security for the amount of money? Whether it can be treated as an asset to that extent? A.—Yes.

Q.—And in the same way you check over the insurance to see that it is properly insured, so that no loss of that asset can occur? A.—Yes. With just one other thing. With regard to overdue interest. There is a column here for overdue interest. It has been the custom—my custom at all events—to ascertain whether at the time the inspection is made that interest has been paid, or any portion of it. If it has been paid it is so entered in the books as paid at the time the inspection is made. Sometimes it happens that nearly the whole of the interest overdue at the beginning of the year has been paid at the time the inspection is made.

Q.—Then, if you find that interest which at the date of the statement that was sent in to you was overdue, and that the statement was true and correct as to that interest, and you find that has been paid before your inspection, you change the statement do you? A.—Oh, I only mark upon it in the item "paid."

Q.—How does it get into the report? A.—It does not get into the report because that would get into the next report. It has been subsequently paid, but it will get into the next statement as interest coming in the meantime. We could not change the report.

Q.—If the report is published? A.—Whether or not we would not change it.

Q.—That is not of the class of items you would change? A.—No.

Q.—Then how do you examine other securities that he company represent is in their possession? A.—The next item is the bonds and stock; the bonds, debentures, and so on.

Of course the company furnish a list of those bonds or a schedule, and they are examined by an actual count of the bonds at the head office.

Q.—Then that list made out is something different from any form you have shown us? A.—There is no form for that.

Q.—But the companies are obliged to supply you with a list of all these securities in the nature of bonds, debentures and stocks? A.—Yes.

Q.—That are in the possession of the company? A.—Yes.

Q.—Then that list is sent to you, with this, and the return you have spoken of? A.—It comes with the other returns. There is sometimes a more minute list made by the company upon which the checking is done. For instance, say in the statements which are sent to the Department, there might be say 50,000 Toronto bonds entered in one lot. The company would have a minute list giving the numbers of those bonds, say so many five hundred, and so many one thousand, and the checking is usually done upon that minute list—is more readily done.

Q.—Is this minute list a document that is sent to you, or a document that you find at the head office when you get there? A.—I find at the head office when I get there.

Q.—That is the company has in its possession a document that enables you to more correctly and readily check? A.—Yes.

Q.—And then when the company has that statement you use it? A.—I use it.

Q.—Then do you keep it? A.—As a rule it has been returned to the company after I have taken off my own statement of the totals.

Q.—From that you see whether the totals that were originally returned to you are correct? A.—Yes.

Q.—And then it would be returned to the company? A.—Yes.

Q.—Then just tell me the way in which you check those stocks and bonds. By the production of them? A.—By the production of them. I probably can best describe it by the last examination I made. It was of the stocks

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and bonds in the vaults of the Canada Life. It was made in January.

Q.—That was January of this year?

A.—Yes, as of the 31st of December, 1905. With me went Mr. Grant, one of the actuaries of the Department. The bonds were taken out of their various shelves by the Treasurer of the Canada Life, and presented, and counted through and checked. As soon as one bundle was counted and checked it was put away and another taken out, until we went through the whole of the list.

Q.—Then what information is the company obliged to give you with respect to those bonds and stocks, and so on? What different values do they put on them? A.—There are three values—the par value, the book value, and the market value. The par value nearly always differs from the other two values. However, the book value is always checked also, as returned with the books of the company to see that they correspond.

Q.—What do you mean when you use the expression “book value”? A.—A company as a rule pays a certain amount for its bonds. That may not be par, or seldom is par. They purchase them either above or below par. They sometimes pay a premium, and sometimes get them at a discount. The book value is what I call the value in their account—what they paid for them.

Q.—And the book value you check with their books? A.—Yes.

Q.—To what extent do you verify that the books correctly show that that was the price paid, if at all? A.—Well, I have never attempted to do that. That is something that I take to be the peculiar duty of an auditor. I could not do that without turning up the vouchers, and ascertaining the check paid for it.

Q.—As I understand it, then, your duty, so far as it has been performed has ceased with seeing that the books that they produce to you correctly showed the price?

Mr. Langmuir: He said a statement.

Mr. Tilley: You verify the statement with the books? A.—Exactly.

Mr. Langmuir: That is with the bond register? Every company keeps a bond register. Do you go to the bond register to see that that debenture that you produce is entered in the bond register, and in the statement? A.—And in the statement. We see that it is entered in the bond register and that the value is shown in that bond register—the value paid for it corre-

sponds with what is contained in the statement sent to me.

Mr. Tilley: So that you go with the statement, and you have the bond produced, and you see it? A.—Yes, sir.

Q.—And you then see the entry in the bond ledger? A.—Yes.

Q.—Showing the price that the company has there as representing what was paid for that bond? A.—Yes.

Q.—And then you do not go behind that? A.—No, I do not.

Q.—Is there anything in the register of the ordinary company, or of any company to show from whom the bond was purchased? A.—No, there is not.

Q.—Then do you know from your inspection from whom the company purchased the particular bonds they are producing to you? A.—I do not. I may accidentally know from some other source, but there is nothing in the books of the company to show.

Q.—Or nothing in your inspection? A.—No.

Q.—That indicates to you where the bond came from? A.—There is nothing.

Q.—Or the transaction which resulted in the company becoming the owner of it? A.—Not as a rule—there is nothing.

Mr. Langmuir: Having examined that debenture or bond, and comparing it with the register, do you put a check mark on it? A.—I do not.

Q.—There has been no initialling or checking? A.—No. I have always initialled the mortgages, but never have the bonds. It would be a simple and easy thing to do it if it would be thought of any advantage.

Mr. Tilley: You were asking him whether any mark was put on the bond itself.

Mr. Langmuir: First, the statement is produced, and then the bond is produced. Then he says that that bond is duly entered in the bond register, and then I think it would be wise to always put an initial on the bond itself, so that you would know that that was a continuing bond from year to year; there would be no change in the security, or no substitution.

Witness: That could easily be done. There is no trouble about doing it, except the labor, sir. Sometimes we get a number of them. We have them as low as \$50, \$100 and so on, and for \$10,000 you will have to put your initials on that many times. It would prolong the work of inspection a great deal.

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Mr. Tilley: From your method of making the inspection I gather that while the mortgages were not produced every year, the bonds and stocks are produced every year? A.—Invariably.

Q.—And you can tell, I suppose, or can you, whether any bonds are coming around to you twice? A.—I always look out for that. I always look out that they do not come around twice. They do not come around the second time.

Q.—But there is no means that you adopt except of being careful, and on your guard. How long would that inspection of bonds and stocks take? Would it run over a day? A.—Oh, yes.

Q.—I mean of the bonds and stocks themselves? A.—The bonds and stocks themselves, in the case of the Canada Life—I think we were more than two full days; perhaps two of us nearly three days; one doing it would take considerably longer.

Q.—And I suppose that as far as you were concerned, you were there without any assistance from your own Department? A.—Yes; as I say I had Mr. Grant with me on this particular inspection, but ordinarily we do not; ordinarily I am there alone.

Q.—And then the company would delegate some of its clerks and officials to assist you in making the inspection? A.—Yes.

Q.—And they would carry the bonds and stocks around? A.—Yes, and then carry them back and put them away.

Q.—And that process would take a couple of days, and there was no means adopted of ear-marking those that you had passed and those that you had not passed? A.—No.

Q.—Then is there any way in which you ascertain from the bond register whether all the bonds there shown are submitted to you and shown in the statement? A.—You mean would it be possible to have other bonds—

Q.—That were not produced or not shown? A.—Yes, they generally do, and very often have other bonds not in the statement, and the reason of it is this: The statement is made up to the 31st December previous to the examination and hosts of bonds may be purchased in the meantime after that, and still held there in the vaults.

Q.—Then it follows in the very same way I suppose that many bonds and stocks are sold between the date of the report and the date of your inspection? A.—Yes, they are.

Q.—Then what do you do in a case like that? A.—An entry or a note is made of it, and we ascertain from the books in the other part—the work is usually done in the vault—if they have been sold, and exactly when they are sold, and the fact that the money was received for them, and in the case where securities are paid off by instalments, as a great many securities are now, we see that the particular debenture which was missing in the count has been accounted for and the cash received. We check that.

Q.—Then as I understand, the same thing applies to the bonds and stocks. There is no way that you have of ascertaining that everything that the company has in the nature of bonds and stocks is fully set out in the statement that they have made to you? A.—No, there is not.

Mr. Langmuir: You are coupling bonds and stocks. They are two distinct things. The debentures can be produced and you can only produce scrip for the stock. When the scrip is produced, do you try to verify that with the company which issued the scrip, in their books, that that is actually entered in the books of the company that issued the scrip in favor of the insurance company? A.—What we always have is a certificate from the company issuing the stock that on a certain date, namely, 31st December, so much scrip was entered in the books of the company.

Mr. Langmuir: That is a very correct way. That is the proper way.

Witness: Held by the insurance company.

Mr. Langmuir: And the other way would be incorrect, because the scrip might be cancelled.

Witness: That it may be cancelled only applies to certain securities. There are certain of them that cannot be transferred without the production of the certificate, and so long as the company holds that certificate it is good. There are many of that kind, but what we usually require is the certificate that is held on the 31st December.

Mr. Tilley: That is to say, where the company are passing stock you require the certificate of the company that issues the stock? A.—Yes.

Q.—That on that day— A.—On the 31st December.

Q.—The company held it, and that it was standing in the name of the company at that date? A.—Yes.

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Q.—Then you have stated that where bonds or stock is sold after the date of the return, that you check to see that the proceeds of the sale are accounted for? A.—Yes.

Q.—Do you in any way check the price that is realized, or do you take the book of the company for that? A.—We have usually taken the books of the company. Of course where it is a bond payable by instalments, we see that the amount received corresponds with the amount due at the particular time.

Q.—That would be a collection of money due under the debentures? A.—Yes.

Q.—Supposing that a debenture were sold out and out and you find in the company's book a certain price realized? A.—Yes.

Q.—Do you in any way check that price to ascertain the true price? A.—No, we do not.

Q.—You take the statement of the company as appears in the book? A.—That that is the amount they receive.

Q.—So long as you find a cash item representing the bond, you treat that cash item as being the amount received? A.—Yes.

Q.—Have you ever in your dealings with the company compared that price supposed to be realized with the price that was being carried in the books? A.—You mean the sale price with that?

Q.—With what was being returned as being the value of the security? A.—Well, no; I do not know that I can recall a case now of having done that. Usually these bonds when they are sold during the interim are sold at an advance as a rule. It is rarely ever the other way. Once in a while it does happen that for some reason or another a bond is sold at less than it costs, because it has gone down in the market, that is to say the book value will not correspond with the amount realized, but nevertheless the market value may correspond with the amount realized.

Q.—Do you ever check to see whether the market value corresponds with the amount realized? A.—I cannot now recall having done so in any case.

Q.—There is no means adopted of checking the market price of the stock say on the day of sale, with the price realized by the company? A.—No, I cannot say there is. We have made no systematic examination of that kind.

Q.—As a matter of fact, it just results in this, that if you find a cash item there for the securities, you pass that as being the amount realized on the sale? A.—Yes.

Q.—And you say that it is unusual to find any great variation in comparing the list price with the price that had been treated as the market price? A.—I do not now recall any case where the list price has been realized.

Q.—Then have you now told us the process you go through in your inspection, or is there anything else you do besides this checking of the mortgages, the checking of the bonds and debentures, and stock? A.—Well, there is the policy loans. Of course there are some thousands of those policy loans in most companies, and while it is quite impossible to go through and examine everyone it would be unusual, and it would take time unnecessarily to do it.

Q.—What do you do in order to check that? A.—I call indiscriminately for a number of them, just taking the numbers of the bonds and asking for the production of this particular instrument and so on, examine them carefully and see that the instrument securing the loan is all right, that the policy is there, and properly assigned, upon which the loan is made, and check that with the items of the loan in the policy loan register. Then as a rule having taken a number that way indiscriminately, I take a list and take one whole continuous page, one after another, and if I find that not only those that were picked out indiscriminately are accurate, but also the total of the one page, taking one after the other, are accurate, I assume that the rest are equally so.

Q.—Then if you find anything inaccurate what do you do? A.—What I would do if I found two or three inaccurate, I should think I would go over the whole of the list and see how many inaccurate ones there were in it, and make a correction in the statement if they amounted to anything material.

Q.—Have you ever found anything inaccurate with the loans on policies? A.—On one occasion.

Q.—What occasion was that? A.—Oh, it is some years ago, and I think a single policy loan. The loan paper and contract was there all right, the policy was there, but the policy had lapsed; there was no security; it was only for

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a small amount, but it was a single policy loan. That is ten or twelve years ago.

Q.—And with that exception have the returns with regard to loans on policies, so far as you check them in the way you have indicated—have they always been right? A.—Always been right.

Q.—So you think you can fairly say there is very little to be corrected in that regard? A.—Yes, I feel quite safe in saying that.

Q.—Then is there anything else that you do on your inspection? A.—Well, except as to the real estate.

Q.—What do you do with regard to real estate? A.—Of course in real estate as in everything else a schedule is made of the various items. I compare the values as given in the schedule with the company's books. Where the property is rented I ascertain the rent or the income from that particular property, and also the expenditure, see what the net income is, and what rate it is paying, and so on.

Q.—Then you check the real estate just in that way. To what extent do you ascertain whether the amount in the book is the true value of the real estate? A.—As a rule we have not made any attempt to ascertain that. It is the original valuation. When the mortgage is made it shows the value of the property. Then of course the value holds good if the valuation was good when it became real estate.

Q.—You are talking about real estate that has been acquired by foreclosure of mortgagae? A.—Yes.

Q.—And then how do you find the value of those parcels of land carried forward by the company? A.—They are largely entered in the real estate account as at the amount held against them at the time they acquired them—that is at the time of the foreclosure—at the time they got in the equity. There are some exceptions to that. In some companies they do not add any of the interest, and in some companies they have a valuation made of the property at the time of the foreclosure to show what it actually is worth. That sometimes results in writing up a little or writing down a little.

Q.—Then do you require the company to do anything in that regard, or do you take whatever they present to you? A.—I have on certain occasions asked that it should be done.

Q.—Can you give us some instances of

when you did it, and the occasion? A.—I have not always been successful in getting valuations that I have asked for.

Q.—What are you referring to now?

A.—Well, I do not know that I can specify a particular instance, but it has been a common thing for me to say, in going over the real estate, now, I would like you to show me a valuation of that property, and sometimes they say I will get it for you, sometimes they do not. I have no power to require them to get it so far as I can ascertain, and so unless they furnish it there it rests.

Q.—You think that under the Act there is no provision in the Act that empowers you to require the company to give you some evidence of what that property is worth? A.—I have been able to find none in it so far, and as I understand it, there is no authority. There is one case with regard to the value of real estate where I have myself procured valuations, cases of that kind where a company has purchased a building and after the purchase have added to the price of it on the assumption that they have made a remarkably good bargain, and wrote it up as we call it. On every occasion of that kind I have procured myself a separate valuation of the property, and in such cases as that if the value which I have procured bears out the figures they have put upon the property as written up it is so entered in the statement, but otherwise it is written down to the amount which the valuator places upon it.

Q.—To the amount at which you have procured an independent valuation? A.—Yes.

Q.—You mean as appointed by yourself? A.—Yes.

Q.—And that he had valued the property. Now on what occasion did you do that? What particular circumstances would call upon you to do that? A.—Well, two or three occasions arose last year in the city of Toronto. Shall I specify the occasions?

Q.—Yes, I think so? A.—The National Life purchased a building on the corner of Toronto and Adelaide streets; the old Trust and Loan Building. After the purchase of it they added some—I have forgotten the figures—\$25,000 or \$30,000 to the price paid, and so entered entered it in their statement. I obtained the valuation of two valutors in the City of Toronto, and they placed a lower value upon it than the company had placed upon it, and so the amount

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was reduced to the valuation placed upon it by the valuator whom I employed.

Q.—That was done then with the approval of the company? They agreed with you then? A.—Well, in a way they still thought the higher figure ought to have been placed upon it, but when I inserted the other figures in the statement they did not dissent. They practically submitted to them.

Q.—That was done by you because of the amount of the increase, I suppose?

A.—Yes, exactly, on account of the writing up.

Q.—Because you thought there might be some question about such a writing up as that? A.—Prima facie property is not worth any more than paid for it as a rule, and it is necessary to establish the fact by some valuation if a higher value is placed on it.

Mr. Langmuir: Had they made any alteration in the buildings? A.—Oh, yes.

Q.—Spent a good deal of money? A.—Yes, but even taking into account the money spent on it, it was still written up.

Mr. Tilley: If you have any other somewhat similar cases in your mind what was the character of the others? A.—There were two other cases very similar, the Home Life Building on Victoria street, corner of Adelaide, that was one, and the other was the Excelsior Life Building on the same street, Victoria street. These three buildings were all very close together, and they were all valued. Now I think in the case of the Excelsior Life Building the value placed upon it by the valuator was quite equal to the amount placed upon it by the company. In the case of the Home Life it was considerably smaller, and the reduced figures are the amount that appear in the report.

Q.—So that all the cases of that kind would be of that character? A.—Yes.

Q.—Where the increase was so much you thought you were not warranted in passing it without an independent inquiry? A.—Yes.

Q.—Then other than questions of that nature arising, have there been any questions arising between you and the companies as to the real estate? A.—I have from time to time said to the companies that I would like to see the value at which they hold their head office buildings reduced; it appeared to me they were placed too high.

Q.—And what was the result of your complaint in that regard? A.—One company procured valuations on the buildings. The valuations bore out the value they had put upon them, and in one other case where I had the buildings valued the valuator placed a lower value upon them than they were carried in the books. The company, however, declined to accept the figures, but rather produced another valuation to show that their value was not out of the way, and so the general result was it had to remain in the statement as returned by the company.

Mr. Langmuir: That is the case of real estate when it becomes real estate by mortgage default, or otherwise, or by a purchase of the property, but when you come across a large mortgage presented to you, we will say for \$100,000, do you ever look at the property? I do not mean when the mortgage is matured, or anything of that kind, but when it is presented to you as an asset of the insurance company, do you ever look at the property to see whether that is a large amount that has been loaned on it, or check it in any way by valuation? A.—If there has been no different rule with regard to the large or the small mortgages, because the valuation in the case of a large mortgage will as a rule be just about double the amount loaned, and always in the case of these large loans it will be found that there are buildings upon the property, and always insured to just about the amount of the loan, or sometimes more.

Mr. Tilley: I understood from you that in the case of all mortgages, both large and small, you required a valuation? A.—Oh, yes, in every case.

Judge MacTavish: That is the production of the valuations?

Mr. Tilley: Yes. The production of the valuations made at the time the loan was put through? A.—Yes.

Q.—You require that to be produced to you along with the mortgage? A.—With the mortgage.

Q.—So that while you do not take an independent value of the property you always had when you first inspected the mortgage, the opinion of some person as to the value? A.—Yes.

Q.—And on that you acted? A.—Yes.

Q.—In the case of companies having large buildings on the real estate, have you ever adopted any system of writing down values from year to year

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for depreciation of building, or any deduction of that nature? A.—The companies themselves usually write down for depreciation, but that again is one of the cases, in which, so far as I am aware, I have no authority to write down. The money is actually gone into the building. The money is actually spent. So much spent in one form or another. And that is sworn to as the valuation, and so far as I know I have no authority to write it down.

Q.—That is to say, if the company does it, it is all right, you have never yet insisted on any writing down? A.—I never have.

Q.—Of any building. Then you probably have not made any inspection of buildings to see whether there should be anything written off from real estate account? A.—Well, the only way an inspection for that purpose could be made would be by some competent valuator.

Q.—You would not feel yourself competent to deal with that? A.—Oh, no, not by any means, and it will be found that the opinions of valuers are very wide.

Mr. Langmuir : What I am going to ask you now may probably come within the purchase of securities, and not the examination by the superintendent. I notice in the rules on page 30 that you called attention to, that on your recommendation the board, on the report of the superintendent, directed as follows: Canadian municipal securities, Montreal harbor bonds, Canadian Pacific, and so on, and United States securities. What is the meaning of United States securities? A.—I think, sir, you have left a word out there—United States State securities.

Q.—You are right. That means the securities of the United States, or of State securities in the Union? A.—To take an example, we have some bonds of the State of Massachusetts. That is a class.

Q.—But you have no reference there to other than State securities? A.—State securities.

Q.—No industrials? A.—Oh, no. State securities.

Mr. Kent : We can imagine an entry say on the 5th January, cash received for stocks or bonds, say \$50,000. There is nothing in your inspection that would prevent that from being carried forward as cash, and a similar charge to any account, salaries, commissions or anything; if you only examined the receipt of the cash, and take that as satisfactory, there is nothing that would

prevent a bogus entry from being made in the cash book? A.—Well, sir, I must admit if the books are falsified it is quite possible to falsify them, and we would not detect it.

Mr. Tilley : You do not audit the books? A.—No.

Q.—If the books are bogus, then your inspection is futile? A.—Yes, to the extent that the books are bogus. We have no means of detecting false entries or falsification.

Q.—Then, speaking of salaries, reminds me of this : There was some request made to the companies to furnish lists of all salaried persons connected with the different companies having a salary over a certain amount? A.—There was, yes.

Q.—Have the companies furnished those statements? A.—Quite a number of them have, and some have not.

Q.—I suppose we could have that to-morrow? A.—I will bring the whole of them—all of the replies I have received.

Q.—And probably the form of the request sent? A.—Yes, we will furnish you with the request.

Mr. Tilley : Shall we adjourn now?

Mr. Shepley : Perhaps it would be a convenient time.

Judge MacTavish : Perhaps we had better discuss the question of hours for future sittings. I would like to hear what Mr. Shepley has to say about that.

Mr. Shepley : My personal wish would be for a sitting commencing at ten in the morning, lasting until one, and commencing at two in the afternoon and lasting until four. That would be five hours' sitting each day. When the Commission is in full swing I quite apprehend my learned friend and myself will want the hours after four o'clock to be ready to keep the Commission going on the next day. Those are the hours I suggest.

Mr. Hellmuth : I do not know that the hours that my learned friend Mr. Shepley suggests are at all unreasonable in view of the material that will have to be got ready in the meantime, but if the Commission could give some idea of the days at all events of this week they will sit it would be a great convenience to many of the counsel engaged in the matter. I assume from what has been said you intend to sit to-morrow.

Judge MacTavish : Oh, yes.

Mr. Hellmuth : And do you propose to sit on Friday, too?

Judge MacTavish : I think so.

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Mr. Hellmuth : You will not sit on Saturday, I suppose ?

Judge MacTavish : I think not.

Mr. Lebeuf : Not for the first week. I agree with the hours suggested. They will suit me. They are the general hours of courts.

Judge MacTavish : The Commissioners would like to meet as far as possible the convenience of the parties interested in that regard. We quite appreciate the position of counsel desiring some time to prepare for to-morrow's work when there is to be a to-morrow of work. Four o'clock seems to be a reasonable hour for adjournment in order to prepare for the next day's work. Then perhaps we had better say that these hours will be observed in the meantime, that is, from ten in the morning until one, an adjournment then for an hour, and from two until four.

Mr. Hellmuth : Would you make an announcement with reference to next Saturday ?

Judge MacTavish : I think we will not sit on Saturday. What do you say about Monday ?

Mr. Shepley : This is, of course, entirely personal to myself. I was very much surprised to hear there was no day train from Toronto here on Sunday.

Judge MacTavish : In the meantime it is understood that we will not hold a sitting on Saturday of this week.

Mr. Lebeuf : And we will see later on as to Monday.

Judge MacTavish : Yes.

Mr. Shepley : I can be here on Monday.

(Adjournment 4 p.m. until 10 a.m. to-morrow.)

FOURTH DAY.

March 15th, 1906, 10 a.m.

Examination of Mr. Fitzgerald, resumed by Mr. Tilley:

Q.—There was some information that you were to get for us yesterday. Have you it with you? A.—The first thing I was to produce was a copy of an abstract. That is the one issued for the balance of 1894, issued last year. The one now in the hands of the printer will be similar, only considerably larger.

Q.—The year ending December 31st, 1904? A.—Yes.

Q.—It is not necessary to mark that. It is an official document. Then, I was asked for the names of the trustees of the several companies which have trust deeds. What does that show? The Equitable Life Assurance Society, Sir Richard J. Cartwright, William Harty, and Wallace Nesbitt; London and Lancashire Life Insurance Company, Stikemen. So that some of these companies I see have three trustees, and others two. A.—That is the case. Two was the minimum number under the Statute. There must be two, but there may be three. Now will you give me the form of deed? Did you say you had one? A.—Yes, there are two forms. These are original documents. That is the first one. This is of the London and Lancashire Life, made in 1882. This is the original draft with the approval of the then Minister of Finance upon it, Sir Leonard Tilley.

Q.—Then what is the other one? A.—Here is a later one of the New York Life, in 1891. This is a draft as approved by the Department of Justice.

Q.—Do these two forms show the terms and conditions that are in all the trust deeds? A.—Well, practically. There are slight variations, but they are substantially as shown by these two drafts.

Q.—The earlier one showing the form originally used, and the later one of 1891, showing the latest form adopted. A.—Yes. (Exhibits 7 and 8.) Exhibit 7 is trust deed under which securities of foreign companies are held. Exhibit 8 is form of trust deed under which securities of foreign companies are held.

Q.—Then what is the next thing you have brought with you? A.—I was asked for the additional deposits called for from the foreign companies, companies other than Canadian. I have had it prepared, for those issued in 1905. I have not gone beyond that, but, of course, if required, it can be prepared, but with the limited time at our disposal I thought that for one year it would be sufficient to illustrate.

Q.—Then that list must cover almost every foreign company? A.—Pretty nearly. There is scarcely one whose liabilities during the year does not increase, and whenever the liabilities increase the deposit must necessarily increase.

Q.—Then this statement does not profess to be a statement of what you demanded of them, but what they voluntarily paid? A.—Oh, no, this was demanded; these are the figures demanded.

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Q.—The company wait until you demand? A.—Always wait. When I say always, not always. Occasionally they make an advance deposit, knowing a deposit is going to be required; a company will deposit a certain amount of securities.

Q.—And then wait to see whether that is sufficient? A.—To see whether it is sufficient or not.

Q.—Then while on that subject you were to ascertain yesterday whether any Canadian company had ever been called on to make good a deficiency of assets? A.—No. I have had a pretty thorough search from the organization of the Department, and I cannot find that a Canadian company was ever asked to make good a deficiency of assets. Now I want to make a remark with reference to that. That is entirely accurate speaking with reference to what may be called the old line or legal reserve companies. In the case, however, of one assessment company which practically went out of business, one of the reasons being that the assets were less than the liabilities at the particular time. That company ceased to do business in 1898.

Q.—So that that company apparently was closing up its business for that very reason, and it passed out of existence? A.—No, it was not closing up its business, but it was asked to close up its business by the Department.

Q.—So that on account of the shrinkage of assets against liabilities, that company was called upon to conduct its business differently or lose its license? A.—That was one of several reasons.

Q.—Then that is the only company the Department has ever been required to bring to time by reason of the assets not being up to the liabilities—the only Canadian company? A.—That is the only Canadian company.

Q.—So far as the returns sent in to your Department, and the inspection made from time to time, they have always appeared, so far as your Department is concerned, to show assets equal to their liabilities? A.—Yes. A number of Canadian companies have, of course, gone out of business in one way or another.

Q.—But so long as they were in business? A.—Yes.

Q.—So that that section of the Act has never been applied except to this

one company practically. Then what else did you bring with you? A.—I was asked then in what cases portions of deposits had been returned. I have a list of them here. There are only three of them that related to life insurance companies. There are four I see.

Q.—We only want the life insurance companies. Probably you will read what you have that would relate to life insurance companies? A.—On the 30th September, 1902, \$7,349.99 was released to the Aetna Life Insurance Company. The deposit of the company at that time was about \$60,000 in excess of the amount which the Statute required.

In 1903, 30th March, \$13,970 was released to the Manufacturers' Life Insurance Company. The deposit amounted to \$192,852 at the time, and the statutory requirement was \$50,000.

On the 3rd December, or in December, 1903, \$3,083.49 was released to the Imperial Life. That company's deposit is about, I think, \$225,000, still, so that it was more than four times the amount which the statute required.

Q.—Is that all? A.—These are the only life companies. The remaining one is a fire company.

Q.—And those are all the deposits that have ever been released by the Department in the case of life companies? A.—In the case of life companies. The question was under a particular clause of the Act. Any release of deposits where they were not necessary to be held. That is an answer to the question which was asked.

Q.—That comes under the section of the Act that says where they paid in more than the deposit required? A.—It is under subsection 5 of section 8.

Q.—And these are all the returns made under subsection 5 of section 8? A.—Yes, that is the way to put it.

Q.—And in these cases there was no special correspondence, I suppose, or no special discussion between you and the company as to their right as to their policyholders being sufficiently protected otherwise? A.—Oh, no, because these are only trifling amounts after all, and as I recollect it it was usually because the company at the time was unable to obtain a suitable deposit to replace it. Where the bonds had matured they were to be paid off. I think that certainly was the case of the Imperial. I believe it was also the case, although I do not speak with certainty in the matter of the Aetna Life.

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Q.—That is to say, the security matured? A.—Yes.

Q.—And the company had to take the money? A.—Yes.

Q.—And had no security to deposit with you of the particular class that you were accepting? A.—Yes.

Q.—So that you just released it in that way? A.—Yes, as we had more than required anyway.

Q.—Then what next did you produce? A.—I was asked as to the recent circular sent out calling for the salaries of officers of life companies. There were two forms. This was sent to Canadian companies and this was sent to companies other than Canadian, with it there is a copy of the schedule attached to each circular letter, and here are the answers I have received. These are original letters—original answers.

Q.—Then are the schedules filled up and included here where that was done? A.—Some of them are and some not. Some of them declined for one reason or another to give the information. One came in this morning, the last one attached there, but there is a certain amount of information shown there in these letters.

Q.—Then the letter that you wrote to these companies—I will read that so that the board will see the form of the letter:

“By direction of the Honorable the Minister of Finance I have the honor to request that you will be good enough to furnish me with a schedule giving the name of each of the directors, officers and agents of the above mentioned company, whose remuneration from the company for the year 1905, exclusive of travelling and other incidental expenses, was equal to or in excess of \$2,000, specifying the amounts chargeable under each of the several headings of fees, salary, commission, etc., which in the case of each such director, officer or agent make up his whole remuneration. Kindly state also separately the sum paid to each for travelling or other incidental expenses. The schedule may be conveniently made in the form hereto annexed.

“The Minister is aware that such a return is not required by the Statute, but in view of the current discussions of insurance questions he thinks the publication of the information in the official report would serve a useful purpose.

“I have the honor to be, sir, your obedient servant,

“Superintendent of Insurance.”

Then the same schedule was attached to each letter? A.—Yes. The only difference in the second letter from the first is in the last clause, or almost the last clause. “The schedule may be conveniently made in the form hereto annexed, and should include under separate headings the remuneration of officials of the company resident in Canada in respect of its Canadian business, and likewise that of officials of the home office in respect of its general business.” That is practically the only difference? A.—That is the only difference between the circulars. (Exhibit 10.)

Judge MacTavish: You have not heard from all the Canadian companies? A.—We have had an acknowledgment, I think, in one form or another from every company, some saying they have transferred it to their head office, but full replies to the questions have not been received from all of them.

Mr. Tilley: Then I do not know that the board would care to hear all these letters read, but can you say by going over the file, of course, such as produced, and which can be further examined later if necessary, what companies have completed that schedule? The letter was sent out of what date? A.—The letter was dated 13th of February, 1906.

Q.—And was it sent out to all the companies on that date? A.—Well, no, there were some of them that did not go out until two or three days later.

Q.—They would be all out by the 17th or 18th? A.—Two or three to the assessment companies. I think, did not go out until probably the 20th. I do not remember the date precisely.

Q.—But the straight life companies: they all went out on the 13th? A.—Yes, within two or three days after that at all events.

The Royal Victoria was the first one that furnished the information.

Q.—Then probably the information might be put in in the form of a table, or a synopsis can be given? A.—I would rather you would not separate it, because it is a portion of my original correspondence.

Q.—If you will just give us the names of the companies that sent in the return? A.—The Royal Victoria.

Mr. Langmuir: That is complete?

Mr. Tilley: Yes.

Witness: The London Life, the Home Life, the National Life of Canada, the Central Life, the Excelsior Life, the Mutual Life of Canada, the Union Mutual, Portland, Maine; the North-

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ern Life, the Imperial Life. That only gives the head office salaries. I refer to the Imperial Life. Reasons are given in the letter which accompany it why the others were not given. Then this is the Commercial Travellers. It is not necessary that it should be sent at all, because they are all away below \$2,000. Then the Union Life Assurance Company of Toronto. This contains a qualification. Quite a few of them have objected to having the information made public, and this is one of them. The Ancient Order of Foresters have replied saying that no one is in receipt of a salary equal to \$2,000.

Then from the Manufacturers' Life giving the head office salaries, but not the salaries of the agents. Then the Catholic Mutual Benefit Association. In this schedule I have before me was the Mutual Life. Inadvertently one name was omitted from the previous schedule, and it is added to this one. Then the Federal Life and the Continental Life, that is all.

Judge MacTavish: I thought you mentioned the Central Life. A.—Yes, the Central Life.

Mr. Langmuir: Where is that? A.—In Toronto.

Judge MacTavish: That would be a Provincial company? A.—It is.

Q.—It is not in the list of companies? A.—It would not be in the original list. It obtained a license in the year 1905. What accounts for it not being in the list which I read yesterday.

Judge MacTavish: One other name you have given now is not in the list—the Union Mutual of Portland, Maine? A.—I gave that yesterday.

Q.—Was that called the Union Mutual Life Insurance Company? A.—It is the same company. The head office is at Portland, Maine.

Mr. Tilley: Then have any companies refused to give the information, and if so, what ones? A.—The one which I have in mind is the Standard. I think practically the London and Lancashire Life may be included as practically a refusal. This is a letter from the Standard Life Assurance Company.

Q.—On what ground do they put their refusal? A.—Shall I read the letter?

Q.—Yes. A.—It is dated 19th February. It is dated at Montreal:

"Sir:

"I have the honor to acknowledge receipt of your communication of the

16th instant, requesting me to furnish you with the names of the directors officers and agents of this company, with the remuneration each one received.

"I regret that I cannot see my way to furnish this information not called for by law, and I beg humbly to express my dissent from the views of the Honorable the Minister of Finance, that such information would serve a useful purpose. So far as the company which I have the honor to represent in Canada is concerned, I beg to say that it is a proprietary office, accountable to the partners for the salaries and other expenses of those they employ. The company has always been willing to furnish any legitimate information called for by this Government, and continues to do so, as is evidenced by the returns annually furnished to the Canadian Government, which returns furnishes the amount expended in salaries, travelling expenses, medical fees, taxes, and commissions paid to agents more or less in detail, but when it comes to a demand on the part of the public to know the salary paid to any one official I consider that it is interfering in the internal management of a business which belongs to the partners alone. Speaking further on behalf of my own company, I would point out the ratio of expense incurred in the procuring of business is particularly favorable compared with any other company doing business in Canada—Canadian, American or British, the rate last year of expenses of management to premium income being 19.25 per cent.

"I would further point out that the Canadian Government requires us to lodge with the Receiver-General assets of unquestionable character sufficient to cover all our liabilities.

"I see no more reason why the public should know the salaries paid to the officials of this company than that they should know the salaries paid to the officials of the banks. Following such a demand as is made to its reasonable conclusion, it would be even more useful to ask what the individuals do with the salaries they receive for the work they are employed to do.

"I beg to offer my apologies for being compelled to differ from the Honorable Minister, but I have no doubt he will value an expression of opinion on the subject in preference to plainly submitting to an outcry by the public over the misapplication of funds by American institutions.

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"Furthermore, the cost of collecting the information asked and publishing it would be considerable, and I would offer my objection to any portion of such expense being levied on this company.

"I have the honor to be, sir,

"Your obedient servant,

"G. M. McGoun,
"Manager for Canada."

Q.—That is the Standard Life? A.—And the other is the London and Lancashire.

Q.—The London and Lancashire, I understand, was not an absolute denial? A.—It is a very short letter. I will read it. It is dated 19th February:

"Sir:

"Your letter of the 16th instant respecting the income of officials connected with this company, together with form of schedule, duly received.

"Personally, I have no desire to withhold information which is deemed by the Department to be of practical value and importance, provided there is not any discrimination intended or permitted, not only having regard to the conduct of the business of life insurance, in which I happen to be engaged, but made to apply equally to all other financial institutions in which the public at large is interested, and a creditor, such as banks, trust and loan companies, building societies, and the other branches of the insurance business. I am not, however, in a position to furnish you with information respecting the head office officials in London, who, having fully conformed to the requirements of the Statutes in respect of the conduct of business in Canada will acquiesce when our Statutes are amended, and they are convinced that a useful purpose will be served.

"Yours obediently,

"B. Hal Brown,
"Canadian Manager."

Q.—You have heard, have you, from all the other companies? A.—Well, I think there has been an acknowledgment from everyone.

Q.—And the other companies have not yet sent in the information, but they are sending it in, are they? A.—I would scarcely like to say they are sending it in. Here is one from the Mutual Reserve, which says it will be sent in.

Q.—What date is that? A.—This is dated 24th of February. I am afraid I should have to go through the whole of them to be able to state.

Q.—You have had no refusal from any other company than the ones you have mentioned, and some of them at any rate are promising the information, and are preparing it apparently, or getting it together? A.—Well, now I probably should refer to a letter I have just received from the Sun.

Q.—What is the effect of that letter without reading it all? Perhaps you had better read it.

Q.—"Dear sir,—We have about completed the statement of the remuneration of the officers and agents of this company, but before forwarding it beg to draw your attention to two points in connection therewith:

"1. It has been brought home to us very forcibly of late that the publication of such a list would create numerous difficulties in connection with our agency staff. At present the different men rarely know what their neighbors receive, but the publication of the list in question will supply that information, and there will in all probability be considerable dissatisfaction created in the case of some who find that they are not earning as much as others. Human nature is human nature, and pressure will certainly be brought to bear upon us to raise the remuneration of some of the lower paid managers more nearly to a level with those that happen to have earned more. Jealousies and complications will thus inevitably be created. In a large number of cases we pay the district manager a commission, which covers not merely what he himself is to receive, but also that which is to be paid to agents and others working under him, and for office and other expenses. It is impossible under such circumstances to tell how much the district manager in question may have been able to retain as his individual share. We have, however, endeavored to meet your wishes as far as possible in this matter, and have obtained special returns from our agent, stating what their remuneration has actually been. Apart from the objection already stated to the publishing of these returns, there is the other fact that we have been led to believe, rightly or wrongly, that a number, and perhaps most of the other companies, are not giving this information. If you would like the statement which we have prepared you are most heartily welcome to it. I have already shown it to Mr. Blackadar. If, how-

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ever, our forwarding to you would mean that it might be produced before the Commission, or otherwise made public, then I hardly think we should be called upon to send it. We are very willing to comply with any and every requirement that applies to all the offices, but do not think that we should be asked to send on a complete list if other companies are not sending equally complete lists, or have not gone to the trouble of getting returns from their district managers.

"Yours faithfully,

"T. B. Macaulay,
"Secretary."

Some of the other companies who have objected to send lists of their agents have sent the head office salaries. This company, however, has not done so. That letter just came in this morning. I may say that the Canada Life has written, promising the information. It is not yet to hand.

Q.—Then is there anything else that you have to say about the special circumstance of any other company that comes to your mind now, or have you pretty well explained the position of matters regarding that request and compliance with it? A.—I think there is one letter, the letter from the Imperial here, which sets out the ground pretty fully, which is taken by several of the companies. I had probably better read that of the Imperial. This is dated the 1st of March, 1904. "Dear sir,—We beg to hand you schedule asked for in your favor of the 13th ultimo in respect of the salaries of the officers of the Imperial Life.

"We are not at present in a position to furnish the information asked for concerning the agents, as we have no means of knowing at the head office their net income. We have, however, communicated with our representatives, and as soon as we are in possession of the particulars desired the same will be transmitted to you.

"We beg respectfully to state that in our opinion it would be undesirable to publish the information sought, at least in so far as companies' agents are concerned, for the following, amongst other reasons:—

"1. We fear that it will convey an erroneous impression. An agent receiving a comparatively large remuneration from commissions may be the most inexpensive representative of the

company, whereas the impression most likely to be taken would be that he was being paid beyond what his services warranted. In many instances it has been determined that paying agents by commission is the cheapest way for the company to remunerate them, and that the greater the income of the agent remunerated on this basis the more satisfactory from an expense standpoint is the business of the company.

"2. The publishing of what a company pays to its agents would, we fear, be placing in the hands of our competitors information detrimental to our interests, and would tend to greatly disturb our own agency system.

"3. We fear also that the publication of the remuneration to agents would cause unrest and dissatisfaction in the company's own agency staff, and, instead of assisting the company in keeping down its expenses, would be used as a lever to force the company into paying greater amounts than the business warranted. Jealousies and misunderstandings would also undoubtedly arise amongst the various members of the company's agents and staff.

4. It also appears to us that while we have no objection whatever to furnishing the Department with any and every information which it may desire, it was never contemplated that such information as that now asked should be made public, and the proposal to do so, is, in our opinion, tantamount to publishing to the world those details between employer and employee, which we understand have always been regarded as strictly confidential

The information asked for in your communication, for publication, is not published in respect of loan companies, banks, fire companies, etc., and it appears to us that it is not fair to the interests of life insurance in general that an invidious distinction should be made in the case of life insurance.

Yours very truly,

F. G. Cox,
Managing Director."

Mr. Tilley: That is a reply that sets out the same reasons as many replies from other companies? A.—Several are to the same effect.

Q.—Then, does that explain the situation as well as it can be with regard to that request, and the way the companies have complied with it? A.—It does. All the information I have is contained here.

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Q.—Then, was there any other information that you were to get for us, or does that cover it? A.—That covers it.

Q.—Then, just before leaving that matter, you said yesterday that the bond and debenture registers of the companies, their ledgers showing their bonds and debentures did not show the source from which the bonds and debentures were received by the company? A.—They do not.

Q.—Is that just a general statement, or do you know whether there are any exceptions to that? Do the registers show at the top of the page the date they are received, the price paid, and through whom they were purchased? Would you find the broker's name there, for instance? A.—I have no recollection of seeing the name of the broker in any case where bonds were purchased.

Q.—Because, it has been said to me that the Canada Life show at the top of their register pages the sources from which the bonds are received by the company? A.—Well, it is possible, but I certainly have not observed it. I was not watching out for that. If it was there I have not noticed it.

Q.—If that information is shown in the register or ledger of that company, or any other company, it has not been an item that you have paid any attention to in making the inspection? A.—I have not.

Q.—You have not concerned yourself at all with that matter? A.—No.

Q.—Then, yesterday we took up sections 19 and 20, regarding the annual returns that are sent in by the different companies, and section 20, by subsection 4, provides the date at which these statements are made up as the 31st December each year. Has there at any time been any examination made of the books of any company, or any returns required from any company during the year, as any other date than 31st December? A.—I do not recall any at the present time. Even if there is power to ask for it.

Q.—I was just asking you for the fact, whether in the case of any company there ever was a return either required or requested and made as of any other date than of the 31st December? A.—I cannot recall any at present.

Q.—Then, between the dates of the different statements do you in any way check the securities that are in the possession of the company received and probably pass out of their possession before your next inspection? A.—That is not necessarily done. It arises sometimes

in checking the item of income, "profit" on sale of securities. It occasionally comes in there, where bonds have been purchased in the year and sold during the year. It would come in in checking that item.

Q.—What item in the return do you refer to now? A.—It is in the income.

Q.—You have the return there right beside you in that book folded up. Mr. Ross has it there? A.—Yes, this is it.

Q.—What item have you there? A.—It comes in "all other income with details." I see there is not a special item printed in this for "profit on sale of securities," but it would come under that item, "all other income with details." Profit on sale of securities is one that would be mentioned there, and in the event of such an item appearing in a statement it might be necessary in checking that item to ascertain whether there had been any purchase or sales during the year of stocks in that way.

Q.—That is to say, if you found under that heading a profit on the sale of some securities, some bonds or debentures, then you would have to check that to see what the transaction was? A.—Yes.

Q.—But now, supposing there was a loan made on some security not authorized by the Act at all, is there anything in your inspection that would discover that? A.—And had gone off before the end of the year?

Q.—That is a loan made and repaid before the end of the year? A.—It would scarcely, I think be examined. Still, Mr. Blackadar will be able to give you direct information upon that point.

Q.—We will ask him about that. I was waiting to know what you understood would be the case? A.—I do not take it that that would be one of the things that we would be expected to inquire into, unless under the circumstances I have just mentioned.

Q.—Unless under the circumstances you have just mentioned, so that the knowledge that the statement is to be made as of the 31st of December in any year, it is conceivable of course, that on the 30th, for instance, a transaction might be put through, which would entirely make it impossible for you to discover whether some improper transaction had taken place or not? A.—Well, a careful watch is always kept for any transaction near the end of the year.

Q.—Then, to what extent do you look for transactions near to the end of the year, and how do you do it? A.—Well, one way is by watching the entries in

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the cash book. Say, going back for a the whole of the month of December to see what the nature of the transactions are there, and then taking the cash book in January and seeing if any of the items were reversed. By watching the account and the bank pass book, and seeing the nature of the transaction put through there, and of course the journal entries—the journal entries for the month of December.

Q.—Then do you go back over and check these things? A.—Yes, if there is anything—

Q.—Are you showing how it might be checked in some way, or are you stating what is the rule of your Department? A.—That is the rule of the Department. If anything suspicious appears during the period that I have just mentioned it is investigated closely to see exactly what it was.

Q.—During what period are you referring to? A.—I am speaking of commencing generally with the whole of the month of December.

Q.—Then it is an instruction to whoever does the inspecting of the Department, that they shall go back during the month of December, and see whether they can find anything that looks suspicious? A.—Yes, and if there is anything that looks suspicious, then it is looked up and ascertained expressly what it is

Q.—Will you tell me just anything else that you could do or anything better that you could do than look at the cash book and the journal entries for the month of December, and I think you also said the month of January, do you? A.—Yes, to see if there are entries reversed

Q.—Does that constitute the whole of that sort of checking that is done? A.—I suppose it would be possible to go through the book—the whole of it.

Q.—I am asking you what is done? A.—What I am telling you is what is done. I do not think in practice an examination is made farther back than the 1st of December.

Q.—Then do you say in practice it is always made back to the 1st of December? A.—I think it is.

Q.—Of course that would be Mr. Blackadar's work more than yours? A.—He can speak particularly of that, because he has done that portion of the work.

Q.—Can you tell me of any case where you have ever discovered anything improper by any company that is not shown in the annual return itself of that nature? A.—Well, I think I have a recollection of cases of the kind. Going back quite a number of years, probably 16 or 17 years, I remember a case where some time in December, about the 30th December, the bank pass book showed a very large amount as deposited early in January, or within the first week of January say; the bank pass book showed again that practically that entry had been reversed, it was charged back, credited with the deposit, and almost the identical amount charged back. I was led to inquire what that was. I discovered it to be this: A whole bundle of premium notes had been taken by the company, put into the bank as cash, had been marked as a deposit in the pass book, and the same amount charged back a little later on, so that it was an incorrect and untrue return as showing that the company had that much cash when it in reality only had a bundle of premium notes.

Q.—Then how many years ago was that? A.—It must be 16 or 17 years ago.

Q.—From that time to date, have you discovered anything else of the same nature? A.—Other things have been discovered since then.

Q.—Now, have you discovered anything of that nature recently in your instruction? A.—Of my personal inspections since then I believe I did discover something somewhat similar in the case of another. Not quite so long ago.

Q.—How long ago do you mean? A.—Well, it might probably be 12 years ago. It is only approximate. I cannot fix the year entirely. Where a company had quite a large overdraft in December, it had also a large number of debentures in its vaults, apparently did not desire to show the overdraft in its statement. It took quite a large quantity of its debentures to the bank, and nominally sold them to the bank for enough money to cover the overdraft. That money was put to the credit. I do not know whether the debentures ever went out of the possession of the company or not, possibly they did. At all events the entry was reversed early in January, and the actual state of affairs was made to appear. That is to say, that the overdraft was shown again.

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Q.—Now is there any other circumstances of a somewhat like nature? A.—In the case of my personal inspection these are all that I recall just at the moment.

Q.—These two cases are all that you recall in your personal inspection. You are distinguishing your own work from Mr. Blackadar's work? A.—Yes.

Q.—Then in the case of Mr. Blackadar's work, has any discrepancy of that nature, or any improprieties been discovered that were not strictly matters shown in the annual statement in any way? A.—I think he will be in a position to tell you of some discoveries he has made, but if you would like I would rather he would speak of those discoveries himself, because he can speak at first hand, while I can only speak at second hand.

Q.—It would be possible to get any paper or document there would be relating to these matters collected so that we could look at them and see what might be worth bringing here to put in evidence? A.—I think that would facilitate the matter.

Q.—Something that would facilitate us in getting at really what was the trouble? A.—Yes.

Q.—Then, of course, even what you attempted to do in order to prevent any impropriety, would not prevent the company carrying it out just the same? That is not a thorough enough check on improprieties if the companies set out to transact them? A.—Well, it would be found to be a sufficient check with regard to that particular kind of impropriety.

Q.—It was sufficient in the cases that were discovered at any rate? A.—Yes, it was, and also sufficient in any cases of that kind which would be likely to occur.

Q.—Of that particular kind A.—Yes, because they would not be undertaken until towards the end of the year.

Q.—Unless they knew how far back you went usually, the 1st of December? A.—Well, they never know that. They can never be exactly certain.

Q.—You might take a run back, for instance, but that would not, I suppose, prevent them at any time during the year, so long as the security was not carried on the 31st December, lend money on a security not authorized under the Act? A.—No, that would not.

Q.—There is nothing so far as you know in the way the companies are inspected for the returns they send in to prevent the companies at any time during the year making a loan on an improper security, so long as the loan was closed out in some way by the 31st December? A.—By the 31st December; it might very likely escape detection with the inspection we are able to give.

Q.—It would be more apt to escape attention than to be seen, would it not? A.—Well, that would depend on the portion of the year; if it were early in the year it would be more probable to escape than to be seen.

Q.—Have you in the case of any company at any time gone through all the securities that that company held during the year to see whether it always has had proper securities and no others in its possession? A.—No, I have never made any such examination.

Q.—Not with respect to any company, or with respect to any portion of the year except the 31st December? That is the fact, is it? A.—That is the fact.

Q.—Then that was with reference to subsection 4, dealing with the date of the annual return. And then subsection 7 is the section that deals with the date when these returns must be filed, and you have already told us about that, and the way you enforce the penalty in case it is not paid, and 21 and 22, and so on, deal with these penalties, you say, and under subsection 21 the penalty of \$10 a day for every day's default in filing the statement is uniformly exacted? A.—It is exacted.

Q.—And then I suppose the extreme penalty of suspending the license has never been inflicted in such a case, because the penalty is always paid? A.—Is always paid.

Q.—Then have there been at any time any prosecutions or penalties incurred under section 22 that your department have been interested in, or a party to? A.—There has been none within my time.

Q.—I am dealing now of course only with life insurance companies; I do not bother about any other than life? A.—No. There are none in which the department has ever prosecuted.

Q.—Are any irregularities in that regard brought to your attention at any time? A.—Occasionally there is.

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Q.—Occasionally they are brought to your attention by whom? A.—By an agent of some other company—oh yes.

Q.—So that sometimes you get complaints in the Department by an agent of one company as to something improper by somebody? A.—Some unlicensed company.

Q.—And that is what you were referring to yesterday when you say that you just leave that to the interested parties? A.—That has been the practice.

Q.—That the Department has in practice not concerned itself with such matters, and do you so inform persons who make any such complaint? A.—I invariably so tell them.

Q.—You notify them that the Department does not take up the cases? A.—Does not take up the cases.

Q.—But leaves to the parties to prosecute if they see fit? A.—Precisely.

Q.—Could you say how many such complaints might be received by you in a certain space of time, just to indicate in a general way what is covered by that section? A.—Oh, I remember an instance two or three years ago.

Q.—Is it just one instance per year or so? A.—They are not very frequent.

Q.—Not more than two or three a year? A.—Not in the case of life companies more than two or three.

Q.—Just an odd complaint of that nature? A.—Yes.

Q.—And you leave the enforcement of that portion of the Act to private persons to insist on themselves, or companies? A.—Yes.

Q.—Then section 25 is a section that deals with you and your duties? A.—Yes.

Q.—And provides for the report to the Minister, and so on, and the salary which I see, which would have to be included in the schedule sent out if it applied.

Mr. Langmuir: You have passed away from the examination of the securities and the method. I was just going to ask one question. Have you ever asked for any intermediate statement of securities dealt with by an insurance company during the year, or only at the 31st Decmebr? A.—I have never asked for an intermediate statement.

Q.—Would it not be advisable, do you think, to have a monthly interim statement, or a quarterly interim statement in order to avoid what Mr. Tilley is speaking of, securities that might have

been acquired during the year, but closed out for the 31st Decmebr? A.—I think it would be probably desirable to have an amendment of the Act requiring a schedule showing that all bonds purchased, and all bonds sold during the year were returned.

Q.—Quite so. A.—I think that would be desirable.

Mr. Tilley: Would it not be well to go farther and have some check, that no security has been dealt in, or loaned on, except as authorized during the whole year?

Judge MacTavish: Making it monthly or quarterly?

Witness: Oh, well, of course I did not intend to limit it simply to bonds. I meant securities.

Mr. Tilley: Do you mean loans as well? A.—It might be made to include loans as well.

Q.—So that so far as you know would there be any objection, and would it not be a great benefit if all the securities dealt in by these companies were shown every year by the—all the securities dealt in during the year? A.—I should think that the companies would have no real objection to it; any company that is doing an honest business certainly would not, and I imagine that it would be valuable.

Q.—Of course we come later to the section about investments. These things work in at different points. Then section 4 provides for certain duties as to entering up securities, and so on. I suppose that those are all literally complied with? A.—They are complied with.

Q.—In your Department? A.—Yes.

Q.—Any of the provisos of the Act as to the filling out of any form, and the making of returns, and so on, are always literally complied with? A.—They are complied with.

Q.—Then the first one that is not of that nature is clause D of subsection 4, where it says "Visit the head office of each company in Canada at least once in every year, and examine carefully the statements of the conditions and affairs of each company as required under this Act, and report thereon to the Minister as to all matters requiring his attention and decision.

Then do you always visit every company at least once each year? A.—I think there is rarely an exception where a company is not visited

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once every year. I do not know that there is any exception.

Q.—You do not know that there is a single exception? A.—No.

Q.—And of course there is nothing to add to what you said yesterday, because I think that was covered fully as to the time of the year when that visit would be made? A.—Yes.

Q.—It seems to be some years as late as September by reason of your other duties that you have to attend to? A.—That is to say my personal visit, but a prior visit will I suppose in possibly every case have been made by Mr. Blackadar.

Q.—As I understood you yesterday, you said Mr. Blackadar would be there probably by the end of May, to every company? A.—Through the whole of the work by the end of May. No, not usually so soon as that; not by the end of May.

Q.—When is Mr. Blackadar through? A.—There are two companies it has been found necessary always to examine in September or October. These are two Winnipeg companies.

Q.—The names of them? A.—The Great West Life and the —

Q.—Why is that? A.—It takes such a long time to go there we could not spare the time earlier in the year to have it done.

Q.—Then neither you nor Mr. Blackadar go to the Great West Life Company until about when? A.—Until about probably October as a rule.

Q.—Then do both of you go to the Great West Life office? A.—No, that is only made on one visit.

Q.—One of you does the whole work there? A.—Yes.

Q.—Then of necessity does not that always throw the inspection of the Great West Life returns more or less after the blue book has been printed? A.—Well, it does practically.

Q.—So that the Great West return is always too late for the blue book? A.—The inspection is always too late for the blue book.

Q.—Then other than that work at Winnipeg, when does Mr. Blackadar usually finish his work? A.—By the 30th June.

Q.—And does he commence to work immediately the returns are in, and the abstract? A.—Yes.

Q.—He commences immediately then? A.—Oh, yes. I should explain that before even the 31st March, when they

are required to be in, there are always a few statements in earlier. As soon as there are a sufficient number to make it worth while. As a matter of fact, he has been in Toronto already this year about a month.

Q.—Then do you and Mr. Blackadar generally meet at the office of each company before you both finish, or are your inspections entirely separate? A.—Entirely separate. We seldom are at the same office at the same time; it does occasionally so happen.

Q.—And you say that possibly, or did you say that you were confident you could say it had never occurred that a company had gone a whole year without being inspected? A.—I do not think a company has ever gone a whole year without its being inspected.

Q.—With a visit both as to the checking of their statement and as to the valuing of the securities as you have described it yesterday? A.—Well, it is possible that a company may have gone one year; one year may have been passed over in the examination of the mortgages.

Q.—That is to say, your part of the work? A.—There may have been.

Q.—As to Mr. Blackadar's work, no company has ever been missed a whole year? A.—I don't think so.

Q.—Are you referring now to some particular case where you missed it, and if it is clear enough in your mind, will you tell me the name of the company, and the year? A.—I think it was the case of the London Life. The securities or the mortgages for last year have not been examined, that is the 1904 mortgages were not examined in the year 1905.

Q.—Then of course now you will not examine them until this year's return? A.—We generally take the two together. I say with reference to that company it is an entirely safe transaction to let them go.

Q.—Do you mean to say that the dealings of that company are more in mortgages? A.—They are very largely mortgages. Their principal method of investing is on mortgage security.

Q.—Their securities do not change? A.—They do not.

Q.—As frequently as some of the others, and their mortgage loans have always been found to be exactly as they return them. They in fact claim that they have never yet lost a dollar upon a mortgage. They make that claim.

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Q.—Then you say in that particular case you have not been there this last year, and that is the only case? A.—That is the only case that I remember.

Q.—Then after you have inspected them, the report that was referred to in clause D, is that the report that gets into the blue book. It says here: "Report thereon to the Minister as to all matters requiring his attention and decision." Is that the only report you make to the Minister? The one that is there, or do you make other reports? A.—I do not think this report is the one that is referred to in that clause. I do not think that that is the one. "(e)" in the next clause is the one referred to.

"Prepare for the Minister, from the said statement, an annual report showing the full particulars of each company's business, together with an analysis of each branch of insurance, with each company's name, giving items, classified from the statements made by each company." A.—That is this report.

Q.—Then under that clause (d), do you ever make any report? A.—If occasion so requires. These may be, and as a rule are, simply verbal reports. They are not required to be written reports, and it would rarely happen that a written report would be necessary.

Q.—You regard that subsection as merely requiring you to bring to the attention? A.—To the attention of the Minister anything that needs his attention.

Q.—Anything that you find should be reported? A.—Anything that he should be told of.

Q.—And that is done from time to time, as the thing occurs? A.—As the thing occurs.

Q.—That you think should be reported? A.—Yes.

Q.—Then there is clause 5: 'If the superintendent after a careful examination into the conditions and affairs and business of any company licensed to transact business in Canada from the annual or other statements furnished by such company to the Minister, or for any other cause, deems it necessary and expedient to make a further examination into the affairs of such company, and so reports to the Minister, the Minister may, in his discretion, instruct the superintendent to visit the office of such company, to

thoroughly inspect and examine into all its affairs, and make all such further inquiries as are necessary to ascertain its condition and ability to meet its engagements, and whether it has complied with all the provisions of this Act applicable to its transaction." A.—Yes.

Q.—That is a pretty broad section? A.—It is a pretty broad section. That should, however, be read now in connection with clauses b and c of subsection 10, which have been later introduced and to some extent modify, possibly even repeal the others so far as life insurance is concerned.

Q.—Clauses b and c? A.—Yes, of subsection 10—of this same section.

Q.—Then let us see those b and c. Do you mean to say? A.—That they have to be read together.

Q.—And the ones you are referring to now, b and c, are part of an amendment that has been made to the Act? A.—Yes, of a later date.

Q.—That is part of the amendment of '99? A.—Yes, and if the two are inconsistent in any respect the latter ones will govern.

Mr. Langmuir: It is an amendment? It is not supplemental to what was read? A.—It was a clause inserted.

Mr. Tilley: Mr. Fitzgerald says that amends that section 10, and the way it has been amended repeals or affects the construction to be placed upon a previous one, which was not really amended. The other one was not strictly amended? A.—I meant to say that clauses b and c, if there is any discrepancy between them, and subsection 5 that clauses b and c would be taken to govern.

Q.—You read them this way: "If it appears to the superintendent that the liabilities of any Canadian life insurance company, including matured claims and the full reserve or reinsurance value for outstanding policies estimated or computed on the basis mentioned in the next preceding paragraph of this subsection exceeds its assets, he shall report the fact to the Treasury Board and the Treasury Board after full consideration of the matter, and after a reasonable time has been given to the company to be heard by them may (1) Forthwith withdraw the company's license, or (2) upon such terms and conditions as they deem proper limit a time not exceeding three years within which such company shall make good the deficiency (the company's license being continued in the meantime), and upon the company. Failure to make good such deficiency within the time so limited, its license

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shall be withdrawn; provided, however, that if the company's liabilities exceed its assets by 20 per cent. or upwards, its license shall be forthwith withdrawn."

"For the purpose of carrying out the provisions of the next preceding paragraph of this subsection, the Treasury Board may upon the recommendation of the Minister appoint such actuaries, valuers or other persons as they deem proper to value and appraise the company's liabilities and assets, and report upon its condition and its ability or otherwise to meet its engagements."

And then it says:—"The provisions of paragraph b of this subsection shall prevail in any case where there appears to be a conflict between it and subsection 1 of section 10 of this Act."

So that section 5, or subsection 5, is not specially referred to there? A.—Oh, no.

Q.—And there is nothing there to affect the full meaning that may be given to that subsection, is there? A.—Well, it shows the procedure in a case covered by subsection 5. This clause shows what is necessary to be done. A case such as would arise under subsection 5, the procedure marked out by these clauses.

Q.—Oh, no, subsection 10, clauses b and c, refer to a case where the superintendent thinks the assets do not equal the liabilities, and then he can have valuers appointed, and so on, but subsection 5 is very much broader than that. "If the superintendent after a careful examination into the conditions and affairs and business of any company licensed to transact business in Canada from the annual or other statements furnished by such company to the Minister or for any other cause deems it necessary and expedient to make a further examination into the affairs of such company," and so on. A.—Deems it necessary to make a further examination.

Q.—Into the transactions of the company. A.—The object of that section 5, as I understand it, is to ascertain whether the company is in a position to meet its liabilities or not. It may be broader. You may take it to be broader, but primarily and in almost every case that is what it means. It does not mean anything else. You can understand, sir, that there are and might very well be cases where it was exceedingly doubtful what the value of the assets were, and what the amount

of the liabilities were. Now before the passing of these clauses in 1899 this would have its full effect, and it would be necessary to cause a separate examination to be made, and for that purpose certain powers are given to the superintendent, and amongst others to examine witnesses and so on under oath. That I take it in so far as that goes, is repealed by the later clause.

Q.—Then let us put it this way: Before this amending Act of 1899 was passed, did you ever have occasion to rely on the powers conferred upon you by this subsection 5? A.—Never.

Q.—That clause has never been used or acted on in any case where you desired to make a full, complete investigation of all the transactions of a company for any reason that might suggest itself to you? A.—Well, possibly I ought to qualify that by the case of one assessment company, the one I have already mentioned, and which went out of business in 1899.

Q.—Just tell us how you acted under that section at that time? A.—Well, an examination of the affairs of the company was made.

Q.—That is an entirely different examination from your annual inspection? A.—Yes, it was.

Q.—What was the nature of the examination you made of that company at the time? A.—That examination was made by Mr. Blackadar personally; he made a special report upon it, and that report was submitted to the Minister. A little later on certain communications came from the company with regard to the report. The report was made and shown to the Minister, and also sent to the company. Some correspondence took place, and a further examination was made to inquire into some further particulars regarding it.

Q.—What sort of an examination? How much further did you go? A.—The further examination was made for the purpose of ascertaining whether the condition of the company was getting better or worse; whether it was going up or down; whether there was any likelihood of it being in a better position if it was allowed to continue, and the result was instead of its improving it appeared to be getting worse, and the result was, upon the basis of the report made by Mr. Blackadar in that case, I reported to the Minister that it was desirable that the license of that company should not be renewed. That was some time in the month of March, 1898, and it expired on the 31st March.

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Q.—Then that is the only case where that section has been used by you? A.—That is the only case.

Q.—Wouldn't it suggest itself to you that that would be a good section under which to make an investigation some times into all the transactions of a company, and see whether it was lending on proper securities all the time? Is not that a section that should have been used more than it has been? A.—Not as I understand the Act.

Q.—Then what view of the Act do you take that caused you to answer it in that way? A.—Well, the view of the Act—this particular portion of the Act I take to mean this: "A careful examination into the affairs and business of the company," bearing in mind that the object of every examination is to ascertain the accuracy of the statement that has been returned, and particularly as to the solvency of the company. I take it, if under the Act, as I read it, upon an examination, I am perfectly satisfied the statement returned is correct, and its assets are sufficient to meet its liabilities, there is no further investigation called for under this section. If, however, it is doubtful whether the company is or is not solvent, then it becomes a case where a special examination is necessary, and for that case a report must be made to the Minister in the terms there set out, and if the Minister agrees with the report he directs a further examination to be made. When that further examination is directed to be made, then the witnesses may be examined, and so on.

Q.—Then as I understand you, Mr. Fitzgerald, what you say is this: That the Act contemplates Government supervision merely to see that the company is solvent, is carrying its proper reserve, and will be able to pay the claims of policyholders when they mature in that way by assets to equal its liabilities? A.—Yes.

Q.—But in other matters Government supervision is not to be of use as to securities on which they shall lend? Would that be your view? A.—The Act has not so provided; such an examination could not properly be made under the Act as it stands. The object, as I understand the Act, is just as I have told you. These particular sections you refer to do not cover anything else.

Q.—These specific provisions? A.—These specific provisions.

Q.—Are merely to assist in the general view that there shall be an inspection

to show that the assets are equal to the liabilities? A.—Yes.

Q.—Still you see there is provision that you shall check over all the securities? Do you say that that is only for the purpose of seeing that it has the assets? A.—That is the primary object.

Q.—Then if you came to a company that on the 31st December in a certain year had a security which you believe to be a perfectly good security, but was not within the Act, what would you do in that case? A.—I think under the Act I have no authority whatever.

Q.—You think you have no authority to say to a company that you have a security here that is not one of the securities upon which you can lend money, and you must get rid of that security? A.—I think I have no such authority. I have no such authority. The Insurance Act, section 50, provides that companies may invest in certain securities. There is nothing then that gives the superintendent any authority over them in case they invest in other securities. There is no penalty attached to that.

Q.—There is no penalty attached? A.—There is no penalty attached in any form.

Mr. Langmuir: Isn't it a breach of trust on the part of the insurance company? A.—They are answerable to their shareholders, or policyholders, that is unquestionable.

Q.—But anyone could bring an action against that company for dealing in an improper security? A.—Any shareholder or policyholder could. The Department, as far as I can ascertain, could not.

Q.—I understand you.

Mr. Tilley: Just take it this way. If your duty is to see that the company has assets equal to its liabilities, how can that be ascertained if you find that securities are not such securities as that company can hold? How then can it be an asset if that security is not a security it can hold? A.—I think it is perfectly apparent that a security may be entirely good, and yet not one that is in the list of assets in which the company can properly invest.

Q.—That is to say that the company may be able, you think, to realize and enforce a security which is not a security that it can take under the Act? A.—Let me understand the bearing of the question. I mean to say that it is quite possible that a company may have a security not mentioned in the list of securities in which it may invest, which is perfectly good, very much better.

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Q.—Good as a matter of fact? A.—Yes.

Q.—But is that a security that you would pass and treat as being a good security held by the company, if it was a security not authorized by the Act? A.—I would call the attention of the company to the fact that it was not authorized by the Act, but going beyond that I take it I have no power whatever to go.

Q.—Then before dealing with that fully, I would like to know to what extent you have found that companies have securities not authorized by the Act, in your opinion? A.—Several companies have had, several companies still have, securities not authorized by the Act.

Q.—Tell me what company now have securities not authorized by the Act? A.—Under the Act companies doing business outside of Canada are authorized to lend or purchase or invest in securities—certain foreign securities to the amount of their reserve, plus 10 per cent. Now these particular securities to a limited extent are entirely legal. It is only when they exceed the amount authorized by the Statute that they cease to be entirely legal. The North American Life now has a larger amount invested in, and loaned upon securities of that class than is authorized by the Statute.

Q.—That is to say, as I understand it, the original power that was given to these companies to lend outside of Canada was to enable them to comply with some local Government requirement, was it not? A.—Not wholly. To a limited extent it was so.

Q.—That was a clause that was sometimes inserted, I notice, in charters of incorporation? A.—Oh, yes, that is that a company may invest in foreign securities so far as necessary to comply, or for the establishment of any foreign branch; it is a short section; it is in all the charters.

Q.—Then other sections in Acts of Incorporation have allowed them to invest in foreign securities to an amount not greater than the reserve on policies in force there? A.—Yes; there are some of them, the Canada Life, the North American, and some others.

Q.—Is the clause in the present Act not just 10 per cent. better or broader than any before? A.—It is 10 per cent. broader than any before.

Q.—That is to say, if there is to be any doubt about the power of the com-

pany to invest in the foreign security, there is a 10 per cent. lea-way to the company over the amount of the reserve on policies up to which they can lend? A.—Yes.

Q.—That is to say, it seems to be a little preference to the foreign field rather than to the home market? A.—I don't think so.

Q.—Because it is 10 per cent. over the amount? A.—Ten per cent. over the amount. The balance then should be invested in Canadian securities, and that includes the paid-up capital, and it would also include the surplus.

Q.—Leaving it, because we will come to it later anyway, have you in mind the name of any other company that has securities not authorized at the present time? A.—The Sun Life is in the same position, according to my understanding of it. That is to say that they have a larger amount invested in foreign securities than the Statute permits. In a communication, however, which I have from the company, they claim that it is not so, and that they are quite within their legal rights.

Q.—Then that is a matter open to question, and is a matter as you might say in controversy at the present time? A.—Yes.

Q.—Then that can hardly be taken as ascertained until it is ascertained more definitely. Then in the case of the North American Life do I understand there is any question raised as to that by the company, or is it admitted? A.—I believe it is substantially admitted. However, I have the letter of the company upon the subject.

Q.—Then I was going to say, probably the correspondence relating to such matters as that should be selected and got together. Then you told me how long that question has been a matter up for discussion between you and these companies? A.—Between me and the Sun it has been up in one form and another for three or four years. What do you mean? Just letters passing to and fro, without any result? A.—Without any result. And interviews I have had from time to time with them, and the general statement from the company—from the Sun I mean—has been that it was impossible for them to get such investment as they desired in the Canadian field, and that it had become a matter of absolute necessity that they should go abroad.

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Q.—That is to say because they could get better investments abroad was their reason for going abroad? That is practically what it means? A.—That is practically what it means, I believe.

Q.—We will observe the Act as long as the home market is the best. Is that what you would say? A.—I presume that is how it would work out.

Q.—Then other than these two companies are there any companies at the present time that have securities that you consider are not authorized by the Act? A.—I do not at the moment remember any others.

Q.—Have there been any other cases that you now have in mind? A.—In what respect?

Q.—Where they had securities? A.—Where they have had, and have disposed of them?

Q.—Yes. A.—I remember for some time a case of the Federal Life where they had certain securities, but they disposed of them at a profit, made a considerable profit upon the deal. However, they disposed of them.

Mr. Langmuir: At your request? A.—At my request. It was my request in this sense. I wrote to them and called their attention to the fact that it was not one of the securities permissible under the statute. Thereupon it was disposed of. I have never, to my recollection, said to a company, you must dispose of that, because I take it I have not the authority.

Q.—Then, are there any other cases you have in mind, past or present? A.—As to a question of securities?

Q.—Yes. A.—There has been a long-standing dispute between myself and the Canada Life with regard to their powers of investment. We are unable to settle the difficulty for this reason. The Canada Life has an old charter that was granted in 1847, I believe, one of the wide charters, and everything that they have held, everything which they hold now, they claim that they have a right to hold under the original charter. That is the point in contest.

Q.—Are you referring now to those words in their Act of incorporation which says, "or any chartered company" is that the expression? A.—That is one of the clauses.

Q.—We will probably come to that later, but has that question been determined or brought to an issue? A.—It is not yet settled.

Q.—How long has that been in progress? A.—Oh, about the same length of time.

Q.—About four years? A.—It must be three or four years.

Q.—Then we can get that correspondence? A.—You can get that correspondence as well.

Q.—Then can you call to mind any other discussion between yourself and the company about the investment of the company? A.—I do not just now recollect anything else. If there is anything further we will ascertain the correspondence and bring it down.

Q.—If there are any other cases you will get them. And you have never relied at all on subsection 5 of this section 25 to enable you to make any enquiry such as that to see whether the company is carrying out the provisions of the Act even as to investments, or any other matter? A.—No, I have not.

Q.—Except in the one case that you refer to, and there has never under this section or any other section been any investigation or inquiry at any time of the year except after the annual statement comes in, except in the cases that you have referred to in your evidence already? A.—That is so.

Q.—Then, subsection 6 of that section says: "The officers or agents of such company shall cause their books to be opened for the inspection of the Superintendent, and shall otherwise facilitate such examination so far as it is in their power, and for that purpose the superintendent may examine under oath the officers or agents of such company relative to its business." I suppose you regard that section as enabling you to see any of the books of a company do you? A.—Any of the books bearing upon what I am doing; any of the books necessary to investigate or verify the statement; it certainly goes as far as that.

Q.—It certainly goes so far that you can call upon them to show you a book which shows where the amount that is carried into the annual statement comes from? A.—Yes.

Q.—And have you regarded it as going farther than that and enabling you to go back through the account that brings that result, and check over all the items, if you were so disposed? A.—I think the power is sufficient for that.

Q.—Have you ever so dealt with the matter? A.—Gone through to examine items? That is to check the various items?

Q.—Yes. A.—Leading to a certain result?

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Q.—Yes, which is carried into the statement—the annual statement? A.—Of course, any item that is carried into the statement is generally made up of quite a number of items. Of course, an examination is always made sufficiently far back to ascertain just how the item that is carried into the statement is made up. You will scarcely or rarely find the particular item as it is shown in the books, but it is a combination of items.

Q.—And you check over the items that go to make up the combination? A.—Yes.

Q.—And there you stop? A.—Yes, unless there is something suspicious, or something that appears to call for a further examination. There I think it would be found we stopped.

Q.—And has any dispute ever occurred between you and any company as to your right to see and examine any book? Has any book ever been refused to you? A.—Personally, no. No book has ever been refused to us.

Q.—You use the word “personal.” Has it to any person in your department? A.—As to that, of course, I am unable to speak. I have not heard of any refusal.

Q.—Have you something in mind? A.—I have not. I have nothing in mind.

Q.—You have nothing in mind that would indicate that any company has taken the stand that you are not entitled to see such and such books? A.—It is necessary, probably, to explain even that. I have on one occasion asked to see certain books for the purpose of making an inquiry, and the manager of the company said to me, while I am quite willing to show it to you, and you are at perfect liberty to look at it, I do not think it concerns you, and on that particular occasion the book was shown to me.

Q.—A sort of without prejudice to the right to show it to you the next time? A.—That is about what it meant.

Q.—Is that as far as any objection has ever gone? A.—An absolute refusal has never been made, so far as my experience goes.

Q.—But when you are making your inspection or dealing with a company, do you always feel, or do you sometimes feel that your rights in that regard are circumscribed? A.—They are. I have felt so, and I have felt this way, that I never would be warranted to make a request that I was not in a position to enforce.

Q.—Then has the lack as you have considered it—the lack of facility on your

part to compel what you would ask for, has it restrained you from asking for things you would have otherwise requested? A.—I cannot say, I have even been refused or restrained from asking whatever was necessary to check a statement so far as I thought my duty required me to go in checking that statement.

Q.—When you speak of your duty, do you mean your duty under the Act? A.—Yes. What is expected of me under the Act, and what I would feel capable of enforcing, having regard to the provisions of the Act.

Q.—But if your duty might be a little broader than what you have stated, that you consider it as to transactions of companies, would you find then that these sections that are in the Act now give you sufficient power to demand books, or do you think it should be broader? A.—I think it should be broader. Let me illustrate what I mean. A circular has been sent out here asking for salaries. One company said we will not give it to you. Two in fact have said that. I would not feel that I was warranted in asking that company to show me their books to ascertain what the salaries were. If I made the request I would expect to be refused.

Q.—In view of that letter? A.—In view of that letter, and I shall certainly not make the request, knowing that it is not called for—that it is not required. I would expect to be told it does not concern you, confine yourself to what the Act says you may do.

Q.—Then I would rather gather from the way you put it, that that has had some influence on you in preventing your going as far as you might go otherwise, the fear of bringing up a controversy whereby they would refuse to do what you asked, and has prevented you from inquiring as much as you otherwise might have done? Is that right or not? A.—It is quite possible, I think that that is very nearly correct.

Q.—You have never wanted to develop a situation when your authority would be denied? A.—When I would be worsted in the conflict. If I supposed I was in the right, and that I could ultimately enforce my demands, I certainly would make it.

Q.—You would want to be first very sure you were right? A.—And then go ahead.

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Q.—And you have not gone ahead sometimes when you might have gone if you thought you could have carried it out to the end? A.—Well, I can only give a qualified assent to that, for I do not call to mind any case in which I would have thought it necessary to go further than I did go.

Q.—But still you have always had that in mind? A.—Yes, sir, that greater power of inspection under the Act, if a denial such as you are now suggesting should be made; that I have not got the necessary authority; that is what I mean.

Q.—Then you have power I notice under that same subsection to examine under oath any of the officers or agents of the company. Have you ever done that? A.—I have never done that. It is under the circumstances to which I refer that that power is conferred. After a report has been made to the Minister that a further investigation is necessary, that is the time that they have power to examine the witnesses.

Q.—You rather incorporate that power along with the provisions later on as part of 10. At any rate, you have never exercised the power given to you on that subsection to examine witnesses under oath. Then do you keep the record shown in subsection 7 as to companies that you have visited, showing the condition of each company after investigation. It says a special report shall be made, and so on? A.—That goes too in connection with 5 and 6. Read those three together. That means a special case, and in that case the special report is itself preserved.

Q.—And 8 in a like manner has never been acted upon? A.—Yes, 8 has been acted on.

Q.—In what case? A.—8 has been acted on in the case of the Provincial Provident Insurance Company. That was I think in 1897, and it was under these circumstances: The Provincial Provident was an assessment insurance company which transferred its business to the Mutual Reserve, I think, and under the provisions contained in that section the report was made under which the company's license was cancelled.

Q.—Which company? A.—The Provincial Provident.

Q.—Had it taken out a Dominion license? A.—Yes.

Q.—It was originally a Provincial company? A.—Yes.

Q.—And then it had taken out a license under the Dominion Act? A.—Yes.

Q.—And under this section its license was cancelled? A.—Yes.

Q.—Is that the only case? A.—That is the only case I think in which a license was cancelled.

Q.—And that was entirely on account of the financial condition of the company? A.—Of course its business and assets had been transferred to another company; it really held a license, and had no assets.

Q.—After the transfer of its assets to the new company its own license was cancelled? A.—Yes.

Q.—Then there is the penalty for carrying on business that is the only case that you remember? A.—That is the only one.

Q.—That comes under subsection 8.

Judge MacTavish: Was that in St. Thomas? A.—The head office was in St. Thomas.

Mr. Tilley: Then section 10a was a section passed in 1899? A.—'99.

Q.—What change was made at that time, just stating it generally, with regard to the valuation for the purpose of the reserve? A.—Prior to the passing of that Act all policies of life insurance companies were valued upon the basis of the H. M. table of the Institute of Actuaries of Great Britain, and a rate of 4 1-2 per cent. This Act provides that from the 1st of January, 1900, as to all business taken after the 1st of January, 1900, they should be valued upon the basis of the same table, and 3 1-2 per cent. interest. That is as to new business. But, as to business in existence prior to the 1st of January, 1900, the valuation should be upon a basis of the same table, and 4 1-2 per cent. up to the year 1910, that it should thereupon be valued upon a basis of the same table, and 4 per cent. interest, and that that should continue as to the old business until 1915, when the whole of the policies should be valued upon a 3 1-2 per cent. basis.

Q.—Then the change was in the rate of interest? A.—Yes, the change was in the rate of interest, the table remaining the same.

Q.—Then that valuation of policies is made once every five years? A.—Once every five years.

Q.—Is it made as to all companies in the same year? A.—No, it is not.

Q.—Or is that a thing that is going on more or less during the five years?

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A.—There are some companies every year.

Q.—Now, why does that occur as to some companies every year? A.—Of course they commence business for one thing in different years, and perhaps the special reason after all is that it is an absolute impossibility to do them all in one year. We have not got a third enough staff to do them all in one year, and so I divide it into different years, a certain number every year, but with every company the policies are valued once in five years.

Q.—Then before dealing with the manner in which you carry out that work, that is the clause that determines the amount that is to be retained and held by the company to ascertain its policies that are maturing or alive? A.—Yes.

Q.—What is the reserve on a policy? What do you mean by the expression "reserve on policy"? A.—That is somewhat difficult to explain. A certain portion of every premium is intended for expenses, and I suppose it is in all cases used for expenses, or at all events a large portion of it is used for expenses. Then the balance of the premium is for the purpose of paying claims as they arise. The balance of it being set aside to pay claims in the future. You understand I am now speaking of level premium policies, where the premium continues the same throughout life. Only a small portion of the premium paid when the person is a young man is required to pay the losses during the earlier years. The balance of that is set aside from year to year and the accumulation of the sums over what is sufficient to pay the death losses as you go along constitute the reserve. It may be taken roughly to be this. To be such a sum as with interest compounded at the rate mentioned in the table plus the future premiums received, together with interest upon it, will be equivalent to the amount of the claim at the man's death.

Q.—That is to say, it is the setting apart out of the premiums of a certain sum each year which is necessary, figuring on the ordinary mortality, adding interest at the rate specified from year to year, compounding it? A.—Yes, compound interest.

Q.—That will produce the amount of the policy at the time when the man is likely, according to probabilities, to die? A.—Yes. Of course added to the fut-

ure premiums computed in the same way.

Q.—Adding to what is also taken from each premium? A.—Yes.

Q.—Then this amount and the aggregate of that is the reserve on the policy? A.—Yes. Now, Mr. Blackadar will give you a better definition of that, I know, because it is a portion of his duty.

Q.—We want to learn it gradually. We will take it from you first and get a more refined one from him later. Then I suppose it follows from that that the lower the rate of interest that is used, the greater must be the amount that is taken out of each premium for reserve? A.—The reserve must be greater.

Q.—Because the extra capital will have to supply what interest might have supplied if the rate was higher? A.—Yes.

Q.—So that the less rate you establish in compounding interest on the sums you set apart, the lower the rate—the more you must set apart out of your premium as paid in? A.—The lower the rate the higher the reserve that is certain.

Q.—So that this amendment in 1899 was a provision, the effect of which would be to increase the reserve that the company would hold to answer their policyholders—increase the amount of the reserve? A.—Increase the amount of the reserve.

Q.—So that from the passing of that Act it would be your duty to see that the increased amounts were carried to reserve by reason of the lowering of the rate of interest? A.—Yes.

Q.—Will you tell me at whose instance the change was made? Was it made on the motion of your Department, or was it made as a result of some movement on the part of the companies, or any of them? A.—I believe the companies were all but unanimous in the view that the change was necessary. It is a Government bill introduced which I drafted myself, and while I am not in a position to say that it would have been brought in if the companies had not favored it, nevertheless the companies are not wholly responsible for it, because it appeared to me and had appeared to me for some time before that that change was necessary. The rate of interest was going down and down.

Q.—And it was thought then that as the rate of interest was decreasing, that the interest at which the reserve was computed should be decreased? A.—Yes.

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Q.—So that the company would have this additional reserve to answer for the policyholders. I suppose the greater the reserve that is taken from the premiums as they are paid, the greater the amount for the reserve, the less there is for profit for the policyholders? A.—Now you are going to a question of division of profits. That is a question that I would rather would be left to the actuaries to dispose of. It is rather an actuarial question than anything else.

Q.—Is it a question that it requires a person with actuarial knowledge to grapple with? A.—It is better that it should be grappled with by one who is entirely familiar with every feature of the case.

Q.—I suppose it follows at any rate to that extent absolutely that the more that is taken out of the premium for reserve, the less you can call profit on that premium, and on the money earned by the company—the more they have to carry to reserve the less of their earnings can be called strictly profits? A.—I suppose that in general terms is quite correct. I should point out, however, that as to the new business which was carried on the lower rate from 1900 new premiums were called for. Premiums were made upon a 3 1-2 per cent. basis instead of as formerly on a 4 1-2, and so as to that business there would be nothing more taken out of the premiums than was provided for in framing the premium.

Q.—That is to say, that after this Act was amended do you mean the premium would be increased? A.—Yes, as to all new business; they were increased immediately.

Q.—Do you know that as a fact? A.—Yes, I am entirely certain that is the fact.

Q.—How would that come to your knowledge? A.—It would come to the knowledge of the Department in this way. The rate book containing premiums are sent to us, or procured by us.

Q.—Are they sent, or are they procured? A.—We generally ask for them.

Q.—Then are they filed officially with you? A.—Yes, we have them.

Q.—From every company? A.—Of every company doing life business.

Q.—Tell me what interest under the Act, as you construe it, you have in the tables of the different companies—the premium tables—that rates? Why is that something that you ask for? A.

—Well, we ask for that because in the case of certain forms of policy they provide in addition to paying a certain sum—they provide for returning premiums. In the case of every such policy it is necessary to have the rate book to see what the premium was.

Q.—So that you need the rate book to show what may be a liability under the policy? A.—So.

Q.—So that you would get the rate book from the company for the purpose anyway of checking the premiums they charge? A.—Oh, no.

Q.—You do not concern yourself with that at all? A.—Have nothing whatever to do with it.

Q.—Now can you say whether before this Act was amended there was correspondence between the Department and the companies regarding the condition of affairs that warranted the change, or required the change? A.—Oh, I think it is probable that we have some correspondence upon the subject.

Q.—I suppose that would be filed by itself? A.—No, it is not. It would be just promiscuously. If we had a letter from any company it would be in the file of that particular company, and so on.

Q.—You do not collect the correspondence in respect to that subject matter together? A.—Oh, no.

Q.—But I suppose it could be collected. There would be some way of getting the correspondence? A.—Well, going through the registers and going through the files.

Q.—Can you say what companies were the prime movers at that time for the change? A.—Well, there would probably be two or three companies, still I cannot say now that they were even more interested than the others, because possibly I believe they were almost unanimous in it. I think with the exception of one company, they were just about unanimous.

Q.—What one company are you referring to? A.—I am referring to the Sun Life.

Q.—What was the position of the Sun Life with respect to it? A.—The Sun Life opposed, I believe, the change altogether, or certainly said it was too radical a change, I remember their views.

Q.—What meaning did you attach to that? That it was too radical? A.—That the change from 4 1-2 to 3 1-2 was too great a change.

Q.—The change was too sweeping when made? A.—Yes.

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Q.—When other than the Sun Life, was that the only company that you remember now that took that view? A.—I think that was the only company. I believe that all the other companies subscribed to a memorandum requesting that the rate be placed as it is now.

Q.—Then that memorandum, I suppose, and the correspondence we could get? A.—When I have time to hunt it up, yes, you will be able to get it.

Q.—Of course, we cannot keep you here and ask you to be getting papers at the same time, but I suppose you could start your Department at that work in getting it together? A.—Yes, I will endeavor to get anything that is called for.

Q.—When probably we had better leave that phase of it until we get the correspondence. Then can you say this? Was the reserve in other places at that time computed at 4 l-2 or at a lower rate? A.—It was computed at a lower rate than 4 l-2.

Q.—And where are you referring to now as being computed at a lower rate? United States? A.—Yes, and certainly in Great Britain, too; the lower rate was in force in Great Britain, I think, before it was even in force in the United States.

Q.—Then was it in any way associated with that fact? A.—Oh, that was one point.

Q.—That prompted the companies? A.—I do not know in regard to the United States companies beyond the fact that the interest is going down, but that was a matter that had some influence upon myself, that the Canadian company should be as strong with regard to their reserve as either the British or American companies.

Q.—So that that was one matter, to see that the reserve would be as high? A.—Yes.

Q.—As the British? A.—Relatively as high, because in Great Britain the rate of interest was not quite so high, even as it was then in Canada, but I think in the case of the principal of the British companies the reserve now is upon a 3 per cent. basis. I think I am correct in saying that, and I believe there are even some companies that even have it as low as 2 l-2. However, I do not speak with certainty as to that.

Q.—Where are those companies? A.—In Great Britain.

Q.—I suppose the rate would be based on what the company might reasonably expect to receive on the reserve fund

invested? A.—That would be the intention.

Q.—That is the basis of the computation? A.—Yes, the companies desire always to have the rate so low that they would be absolutely certain of securing that rate upon all their funds.

Q.—Then I suppose that as to the rate that would be obtained, it might depend to some extent on the class of investments that might be secured by companies? A.—That of course would have an influence too.

Q.—And it was at the same time that this amendment was made, I think, that section 50 was added, authorizing broader investment by companies, or many companies? A.—Yes.

Q.—Then how do you proceed to value the policies in the carrying out of this section? What do you do? A.—The companies are requested to send lists of all their policies, and of course that list contains the description of the policy, and the date and the amount.

Q.—Then is each policy stated separately from the others? A.—On some occasions yes, and again in other cases they are grouped.

Q.—How could they be grouped? A.—Well, suppose there are a number of policies of the same kind, precisely the same form, upon persons of the same age, they can all be grouped together.

Q.—Then would that be the only way in which they would be grouped? A.—That, I believe, is the principal way at all events. However that particular point is actuarial again, a thing of which I am not so familiar, but I am familiar with the fact that to a certain extent they are grouped, and so makes the valuation a much shorter process.

Q.—At any rate, as you understand it, the idea of grouping is to bring together similar computation, so that one computation will cover them all? A.—Will cover the whole, instead of having to make separate valuations for every policy, a number of the same kind put together in one item.

Q.—Instead of making this computation for these policies, on computation answers for the whole? A.—Yes.

Q.—Just as well? A.—Yes, quite as accurate.

Q.—You say you send out asking for a return as to all policies current at the time? A.—Yes.

Q.—And the information then is returned to you? A.—Returned, yes.

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Q.—What do you do on receiving the return? A.—Proceed at once to the valuation.

Q.—How is that done? Is that done under your supervision? A.—No, that is done under the supervision of Mr. Blackadar, one of the actuaries.

Q.—And does the company on sending in those returns indicate what it has figured the reserve on the different policies to be? A.—No, they do not. It is a separate valuation altogether.

Q.—I know it is a separate valuation, but do you start the work of that valuation with the knowledge of what the company has figured that reserve to be? A.—No, it is entirely independent.

Q.—You have no information? A.—Not as to what they have figured it at, except possibly in a case of this kind, where they have in their sworn return given the total valuation of their policy. That is one of the items in the liability and if the valuation is made as, say, of the 31st December, after that has been received we know what their total valuation is based at, but then their total valuation in the most of companies is not upon the same basis as the one required by the statute. In our valuation it is based strictly upon what is required by this section. The companies, some of them, base their reserve as to the whole of their business, I believe, upon a four per cent. basis, although that is not required until 1910, and others of them have the whole of their business now upon a 3 1-2 per cent. basis, although that is not required until 1915, so that their valuation would necessarily, in a case of that kind, differ from ours.

Q.—Then, as I understand it you figure the reserve on the policies according to the policy that is in the company? A.—Precisely.

Q.—Rather than on the basis of the privilege that the company has, and you do not ascertain from the company whether under this section, subsection 10 as amended, the company has commenced to increase its reserve or not? you do not say to the company when you commence to figure the reserve, have you lowered your rate from 4 1-2 to 4? You do not ask them that? A.—Yes, we do.

Q.—Do you act on it? A.—We value still according to what is required here, but they are required to state the basis upon which their valuation is made. I think there is an item here for that.

Q.—Just refer to that? A.—At the foot of pages 4, there is this note. Exhibit 1.) This table of mortality and rate of interest employed in computation, or where an estimate only is given, states the basis of such estimate.

Q.—So that you know the basis on which the company has computed its reserve? A.—Yes.

Q.—But you do not pay attention to that? When you come to figure it yourself you take what the company is obliged to do under the Act? A.—Yes.

Q.—And you compute the company's reserve at a higher rate of interest than the company does? A.—Yes.

Mr. Langmuir: Is that not unfair to the participating policyholders, basing that on 3 1-2 per cent. now instead of waiting until 1915.

Mr. Tilley: That is what Mr. Fitzgerald I thought was suggesting Mr. Blackadar could speak about.

Witness: It comes to a question which I do not like to discuss, fearing that I am not capable of discussing it as it should be discussed.

Mr. Langmuir: The policyholders have something to say as well as the company? A.—Oh, yes.

Mr. Tilley: That is just the way the section was framed. Probably Mr. Fitzgerald framed it, and probably that should not be criticized. A.—There is no objection to your criticizing it freely, I would be very glad to have any criticism concerning it.

Mr. Tilley: The way the section is framed you will see, the company has the power to change the rate of interest at any time, but not later than a certain date.

Mr. Langmuir: That may be the proper construction.

Mr. Tilley: The section does not say that you shall increase it gradually during the years from now until then, or that you shall do it in the middle of the period or the beginning of the period, or the end of the period. That is just the way it reads.

Mr. Langmuir: But still it may be too drastic.

Mr. Tilley: It is law now, and some have acted upon it. I am afraid that is one of the sections that is in existence and has been adopted by some of the companies.

Q.—That is a fact, is it not, that some of the companies have already reduced the rate of interest on which they compute the reserve? A.—Yes, some have.

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Q.—Probably we might as well have it here, so that the information will be on the record. What companies have made any change under this section, and what companies have not made any change? Or if you give me the companies that have, we can find out the rest ourselves? A.—I think there is a table in this report giving that information exactly, if I can lay my hands on it. Might I ask Mr. Grant to come here?

Q.—Oh, yes. A.—Mr. Grant, please turn me up where that table is.

Mr. Grant: There it is.

Witness: It is at page 105, Roman numerals, of the report of 1904, issued in 1905. A list of them is given there. This is the basis upon which the reserve is computed.

Mr. Tilley: By the different companies? A.—Yes, the last column.

Q.—Then have any companies made any change this year that you have been advised of? A.—Let me see how the Sun Life is there? The Sun Life is 4 1-2 prior to December 31st, 1906. The 3 1-2 is since that time. My recollection is that the last statement is entirely upon a 3 1-2 per cent. basis.

Q.—That is for all policies? A.—Old policies as well as new.

Q.—So that you think that the Sun Life during the last year altered its rate of interest on which it computes the reserve? A.—Yes.

Q.—Has any other company made any change that you know of? A.—I do not remember any change further than that.

Judge MacTavish: What does H. M. stand for? A.—Healthy male.

Q.—O. M.? A.—I have been trying to find out exactly what the "O" meant on that table. I have not yet struck anybody who is able to inform me. Mr. Grant tells me it is intended to mean British officer, but it does not indicate beyond that. It means, I suppose, male lives.

Q.—Can you say about what percentage of premiums must be carried to the reserve under this computation of 3 1-2 per cent? A.—Well, of course, you know premiums on any particular policy—

Q.—Of course they will differ, but can you tell about what they would average—what the average amount would be that would be required to make up the reserve, and what would be then left? A.—Out of each premium?

Q.—Yes. On the 3 1-2 per cent. basis—on the basis of the present Act? A.—That would be a varying amount from year to year. There could be a considerable portion of the first premium, a smaller amount of the second premium, and a still smaller amount of the third, and so on, until the last.

Q.—What would be smaller? A.—The amount for the reserve.

Q.—Would be smaller? A.—Would be smaller out of the second premium than out of the first, and smaller out of the third than out of the second, and so on, because it required a larger amount of the premium to pay the death losses. Of course, that is not the method in which actuaries calculate so much out of a premium. There is a regular table, a regular formula, which sums up the whole.

Q.—I was asking if you could tell me what percentage of rates by way of premium goes to the reserve? A.—That depends upon the length of time the policy was in force.

Q.—But the company returns the gross premium I suppose every year? A.—Yes.

Q.—From all companies every year? A.—Yes, sir. I suppose that is deducible from the return made by taking the premium receipts in the year, and taking the reserve on the policies for the year.

Q.—I was wondering whether you had ever figured that? A.—No.

Q.—And could you say about what percentage of these rates by way of premiums must be retained by the company to make up the reserve? A.—I do not think it is possible to give an answer to that question. I do not think it is.

Q.—You could not say now? A.—I am not in a position to give the answer.

Q.—You have no interest, as I understand it, in the question as to the profits that are paid out to policyholders at all? A.—Interested in a general way as a policyholder myself. I have the ordinary interest of the policyholder.

Q.—Not as a department? A.—No, we have no interest. There is no duty cast upon us with regard to it—nothing that we have to do.

Q.—Nothing in the Act, and there is nothing in the way or method by which you carry on your business that affords any check on that branch of the company's business, is there? A.—There is not.

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Q.—Can you say what the company's average, or what per cent. they might be obliged to receive on their money from the statement they send in to you? You say the rate of interest for the reserve was lowered because the interest that companies could get became lower gradually? A.—Yes.

Q.—Can you say over a period of years since this Act was passed about what percentage the companies have averaged by way of interest to incomes? A.—The rate varies of course in different years and in different companies, and I suppose it is something that could be complied or pretty nearly ascertained as to what it was by the several years, but so far as I know such a computation has never been made in our office at all events, but I think some of the journals have published it. I think the journal of Mr. Wilson Smith in Montreal publishes a table of that kind.

Q.—Showing about the earning power? A.—The earning power.

Q.—Of moneys? A.—For the various companies.

Q.—Is it the Shareholder? A.—The Finance Chronicle published by Mr. Wilson Smith in Montreal. Some other journals may do so, but I am pretty certain that Mr. Wilson does publish it from year to year.

Q.—Then, on that section 10 you have said all you can? A.—Well, I think I have given you all the information that I can reasonably give you.

Q.—You do not care to express an opinion as to whether it is fair or otherwise to the policyholders to reduce the rate of interest at once on the coming into force of the Act or waiting until the expiry of the time? A.—Well, I do not want to say that I cannot answer the question at all or give any sort of an answer to it. It appears to me that temporarily that has the effect of reducing the profits to certain of the policyholders, and it might be considered to be unjust where policies became claims. Of course, if they continue on a little later, then profits will come up again.

Q.—Your idea is that a temporary reduction, and hence that any policies that became claims in the interval miss that benefit? A.—They miss that benefit.

Q.—But that policies that continue beyond the last date mentioned in the Act—that they then get the benefit? A.—They get the benefit, particu-

larly if they live for a few years beyond the time. However, that is a point that an actuary will speak on much more certainly, and be in a position to give his reasons for it.

Q.—Then would you tell me how companies that have made changes in the rate of interest since the section was passed—how they have accomplished that, getting the additional amount to reserve? Have they taken any exceptional means to do that, or is it taken out of profits? A.—It has just been taken out of their surplus; generally out of the surplus which they had on hand.

Q.—The companies that have made any changes had sufficient surplus to enable them to do so? A.—Yes.

Q.—Have any companies increased their capital stock since this amendment was made? A.—Yes, I think so.

Q.—What company? A.—I think the Canada Life has increased its stock. It was originally \$125,000. It has now \$1,000,000 paid up. I will just ascertain the date when that was done. I think it was since 1899 wholly.

Q.—Then that would be the same year that this was passed? A.—It was since then. The amount now paid up is \$1,000,000. I do not know just when it became a million. Of course, that is readily ascertainable from the reports from year to year.

Q.—You do not know whether it was in '99? A.—I think it was since '99. The authorized capital has been for years a million dollars, but only \$125,000 paid up. It was a matter of making a call. That is what I understood you to mean by increasing its capital.

Q.—It was calling more? A.—It has increased capital in a sense.

Q.—It is increased capital in the company? A.—Yes.

Q.—Has any other company called any more of its stock, do you know? A.—I could only tell by looking it up whether they have or not.

Q.—Then have you yet acted on subsections b and c of that subsection 10 since the amendment of '99? A.—No, there has been no occasion for it in any case.

Q.—Was that passed in consequence of some difficulty at the time? Was that in consequence of what transpired in '97 with regard to some company? A.—No, it was not. It was generally considered to be a provision that ought to be in the Act.

Q.—And it has never been acted on? A.—Never been acted on.

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Q.—I suppose when it uses the expression "full reserve," or "reinsurance value," I suppose the reinsurance value is the same as the reserve? A.—They are synonymous terms. They mean the same thing there.

Q.—Then, of course, that would simply accord with the statement you already made this morning that there has never been any Canadian company where you have found any impairment of assets as compared with liabilities? A.—No, there never has been.

Q.—And it is on that account you have never found a company that came within the section, and that is the reason the section has never been invoked. Then subsection 11. Have you ever been required by the Minister to visit the head office of any company licensed under the Act and formed elsewhere than in Canada to examine into the general conditions and affairs of such company? A.—Once I was instructed to make a visit to Boston at a time when the Massachusetts Benefit Life Association was licensed, and to make an investigation therewith regard to certain charges that had been made against the company. You understand it was an assessment company, and the charges were in effect that the premiums were increased, and that higher premiums were charged to Canadian policyholders than were being charged to American policyholders for the same kind of policy. That was substantially the item in dispute.

Q.—That was the complaint that was made? A.—That was the complaint that was made.

Q.—That was after it was licensed that complaint was made? A.—Oh, yes, while it was licensed; it was doing business at that time. The investigation showed that that clause was unfounded, that there was no ground whatever for it, and report was made to that effect; that report was published and will be found.

Q.—That is the only case? A.—That is the only case that I have ever acted upon.

Q.—Has it ever occurred to you in connection with any company that it would be advisable to act under that section, even if you have not done so? A.—Well, the advisability of it has scarcely ever been considered from the fact that it would be practically an impossibility to undertake such an examination, having regard to the staff which we have. The examination, for instance, the principal foreign companies

that are doing business here, are the American companies, these three large ones, and when an examination of these companies is made it takes a large staff of examiners, and three to four, or six months to complete it. That is such an examination as we, with our staff, could not think of undertaking, and so we have never really considered the advisability of such a step possible.

Q.—This is not a section that would be expected to be used on many occasions? A.—Not on many occasions.

Q.—Just under the circumstances you have described with regard to Massachusetts? A circumstance of that kind would call upon you to make an examination such as that? A.—Of course, our law is such a vague law, it differs from all other laws, because the foreign companies are required to have here, either with trustees, or the receiver general, assets to cover their liabilities, and it is really a business within itself, where the assets are entirely in the control of the Government.

Q.—These foreign companies—do you value their insurance policies for the purposes of the reserve oftener than the five years, or not? A.—Oh, just the same, every five years.

Q.—Then, as to the intervening years. You take their statement as to the reserve on policies with such verification as you can give in your own office? A.—Well, of course, from year to year the proper reserve is estimated. That is not a difficult matter I am told by the actuaries; knowing the accurate reserve at the end of one year it is not difficult to tell what the reserve on that same business will be one year from that date, and then estimate or calculate the reserve upon the new business; putting the two together, a very close estimate can be made of what it ought to be; of course, if we had any suspicion that the amount returned was less than it ought to be, we would simply call for a list under another section; I think there is power to call for it to make a valuation.

Q.—But you think that just in the ordinary course of the conduct of your office you can check it sufficiently? A. Yes.

Q.—To know that there is not much variation from what is proper at any rate? A.—Yes.

Q.—Can you say then, how you found their policies turn out at the end of the five-year period? Nearly as you expect-

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ed? A.—Oh, I believe so. I believe it will be found that our valuation was never in excess of theirs. I believe that.

Q.—For the purposes of the reserve? A.—For the purposes of the reserve.

Q.—So that they have been on the safe side? A.—On the safe side.

(Adjournment 1 p.m. until 2 p.m.)

(After Adjournment.)

Q.—We were speaking about section 25, and referring to subsection 11 just before the adjournment. The following subsections provide for the contributions by companies of the payment to your department for the inspection; I suppose there is no difficulty in working that out under the section, is there? A. None whatever.

Q.—They pay the accounts as you render them? A.—As they are rendered they are paid, sometimes a few days delay, but not very long.

Q.—There is never any question about amount? A.—Never any question about amount.

Q.—There seems to be some distinction made between fire companies and life companies as to the total contribution for that purpose? A.—Yes, there is a provision that the fire companies shall not be called upon to pay more than \$8,000. I do not know any reason for that being there, except that it was in the old Act passed many years ago, and why it was put there I do not know.

Q.—It is not a matter that has arisen at any rate, or caused any discussion of any kind? A.—None whatever.

Q.—And the provision of the Act as constituted now work out equitably between all companies? A.—Quite well, because as yet the fire companies have never been called upon to pay so large an amount as \$8,000.

Q.—So that that restriction on their constitution has never yet come into force? A.—It has never come into force.

Q.—I suppose the superintendent is not interested in any company as a shareholder? A.—It is not necessary to say so; that is undoubtedly the case.

Q.—Then the Minister shall lay the superintendent's annual report before Parliament within thirty days after the commencement of each session thereof. That is a matter that probably we need not concern ourselves about. Then 25 seems to be a section that would be used properly and beneficially by you in some cases. "For the purposes of the carrying out of the provisions of this Act, the Superintendent of Insurance is here-

by authorized and empowered to address any enquiries to any insurance company licensed under this Act, or to the president, manager, actuary, or secretary thereof, in relation to its assets, investments, liabilities, doings, or condition, or any other matter connected with its business or transactions, and it shall be the duty of any company so addressed to promptly reply in writing to such enquiries." Is that an amendment? A.—It is an amendment. I am not sure whether it was in 1894 or 1899; it may have been as early as 1894; I think probably it was in 1899.

Q.—I think it must have been before 1899, must it not, because it is not in italics in the copy I have; at any rate, it is an amendment since the general Act? A.—It is an amendment since the general Act.

Q.—Was there any circumstance that brought about that amendment? A.—Well, just the circumstance that I have mentioned here; that was one of the circumstances at all events; where I had asked for certain information, and although it was given to me, it was given reluctantly, and it was to meet that case, and there had been other occasions of a somewhat similar nature; as much as to say, "This is none of your business;" that was the effect of it.

Q.—That section would seem to cover any further answer of that sort by any company to you from that date, would it not? A.—Within the limits of what I am required to do by the Insurance Act, yes, and there have been very many enquiries made under it, to which I have always had to answer; on one or two occasions, however, it became necessary for me to point out the section under which I made the enquiry.

Q.—The enquiries that you refer to now as producing replies by virtue of this section were aimed merely at the solvency of the company by comparing its assets and its liabilities? A.—And any item or anything that naturally grew out of the statement as it was.

Q.—Anything that would grow out of the statement? A.—There is a qualification, you will observe, put in there which was not in the section when it was originally drawn; it was put in in the committee.

Q.—Which section are you referring to? Is it the one we are now at? A.—Section 25a.

Q.—What is the qualification? "For the purpose of carrying out the provisions of this Act"; these words were inserted; confining it to what was pro-

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vided for in the Act. I myself prepared that section. It was put in in the Committee on Banking and Commerce, because it was suggested the Superintendent might get too inquisitive.

Q.—The first line you regard then as precluding you from asking any questions that do not relate or have some bearing directly on the statement that the companies return to you? A.—Yes.

Q.—That is unless it relates to the information they are bound to disclose, you feel you are asking them something that still does not come within any section of the Act, and therefore this general clause enabling you to force an answer does not come into play? A.—It really crippled the clause that that it became practically of very little use.

Q.—You have not regarded that clause as enabling you, for instance, to see whether they were sticking to investments authorized by law?

Mr. McCarthy: Did anybody ever object to this section?

Mr. Tilley: After the section was pointed out, do you mean?

Mr. McCarthy: Yes.

Mr. Tilley: Q.—After the section has been referred to by you to any company, has the company then objected to give you any information you desired? A.—No, they have not.

Mr. Tilley: That covers it, Mr. McCarthy, does it not?

Mr. McCarthy: Yes.

Mr. Tilley: Q.—At any rate no case has arisen where it has been agreed tacitly or otherwise, that it did not come within this section? A.—No, there has been no case of that kind, because I felt myself that I should be careful not to ask anything where it would be refused, and where I would not be in a position to compel its production. However, it will be borne in mind that there is no penalty if they refuse. They might tell me to mind my own affairs, and there is the end of it.

Q.—There is no special penalty provided in the Act, you say, for a breach of section 25a; that is what you mean? A.—Yes.

Q.—Whether there is any penalty for a company refusing to obey a statutory enactment—you do not mean to pass any opinion on that? A.—I am not passing an opinion on that.

Q.—On the Statute that you have before you there is no particular penalty

for a breach of that particular section? A.—No.

Q.—So that, although we find this general section in the Act, you have not broadened your enquiry any by reason of it? A.—I have felt that it did not enable me to broaden it any.

Q.—I am just asking the fact; you have not done it? A.—I have not done it.

Q.—You felt that by the introduction of the section practically nothing was advanced? A.—Nothing was advanced; but of course it enabled me to get, probably without objection, certain information with regard to various items in the statement that there might have been objection to, in fact a couple of cases where objection was made; I remember two cases in particular.

Q.—Give us an illustration of what you mean by two cases? A.—I mean that I wrote to a company; it was a fire company, however, for certain information bearing upon what was contained in their annual statement. I received an answer from the manager of that company asking unders what authority I made the enquiry. I replied, quoting the section. The reply to that letter brought the information I wanted. There was still a later case—this only probably occurred within a year or two—the case of an assessment life company, where I asked information in regard to what the company was doing, also growing out of the company's statement—to a certain extent, at all events—and I got a somewhat similar answer. I made the same reply and got the information. I am not sure that in the case I mentioned last that the information was not forwarded with the first letter, with an intimation, or a protest against its being asked—

Q.—It was given without prejudice? A.—It was as much as to say "I am giving it to you as a matter of courtesy, but I do not think you have a right to it."

Q.—So that you have never in any way put the section to the test as to affording you a right to enquire as to what is going on in connection with the company's business between the annual statements? A.—No, I never have.

Q.—In fact, broadly, you have never regarded that in any way as part of your business? A.—No, I have not.

Q.—So that it has not developed into that situation by reason of anything the companies have said or done, or any position they have taken, but your own

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view of your duties and your position as defined by this Act? A.—Yes.

Q.—If the section stood alone one would think it was rather broad, in relation to its assets, in relation to its investments, its liabilities, doings or condition, or any other matter connected with its business or transactions, and it shall be the duty of any company so addressed to promptly reply in writing to any such enquiry? A.—You will observe the word "expenses" is not in there, however.

Q.—The word "expenses" is not there? A.—No.

Q.—But its doing would probably cover expenses? A.—I am inclined to think it would not.

Q.—Or any other matter connected with its business? A.—That is broad; it is general; *ejusdem generis* is the term you lawyers would use about it, I think.

Q.—At any rate, that is the view you formed, and that is the view that prevailed ever since you have been in the Department. I suppose? A.—Yes, and prevailed before I was there.

Q.—That has been consistently followed out for, at any rate, fifteen years? A.—I have been there myself for over fifteen years, something over twenty, and it has been followed out for thirty years, I am satisfied.

Q.—Do you see in any way as to the observance of the clauses relating to conditions of policies, and so on?

Mr. Langmuir: You are passing away from the duties of the superintendent?

Mr. Tilley: Yes.

Mr. Langmuir: I have a memorandum here I wanted to ask Mr. Fitzgerald about. Q.—Does it come within your province to indicate what is the best kind of bookkeeping for an insurance company, or do you have any supervision over that? A.—No, we do not.

Q.—Is there any uniformity in the bookkeeping? A.—Not very much uniformity. There is a great deal of difference in the manner in which they keep their books.

Q.—Would it not be very important to have a uniformity in order to get the same information upon all points of receipt and expenditure? A.—That would, of course, have its advantages, but you will get bookkeepers of all types, and you will never find two bookkeepers that will agree exactly as to what it should be, and the position I have taken is that so long as I can get the infor-

mation from the books as they are kept, it is not a matter of great importance as to the particular form in which they are kept.

Q.—Take an instance; say the Commission wanted to know what was the expenditure, the outlay, for obtaining insurance policies, or writings of certain classes of policies as compared with others, so that the leading would not be encroached upon with one over the others, so that the leading would not rather important to know what one was more expensive than the other? I suppose they have it in their books? A.—I have no doubt they will be able to furnish that information if asked.

Mr. Langmuir: I think, Mr. Tilley, it would be very important to have uniformity of bookkeeping in life insurance companies, when you ask for specific information on given points.

Mr. Tilley: Yes, to be sure, that the companies are both coming to the result in their statement by the same process or system of bookkeeping, so that the checking would be a more accurate thing, probably, when you have it down to some organized style; but Mr. Fitzgerald's explanation is simply this: that they have regarded it as their duty to be able to say that the companies are solvent within the meaning of the Act, practically that they are keeping their Reserve, and that they are properly showing their liabilities, and that they have assets to represent the assets they show or pretend to have.

Q.—And if they have more assets than that, you do not worry much with that condition of affairs? A.—Well, really Mr. Tilley, we have not the time to make fancy results in this world, or investigations of any kind, unless they are going to be of any value. With our present staff we have not time to do it. We might have it doubled, and if we had then possibly we might undertake some of those things, but in the meantime we have not time to do it.

Q.—You regard the Act as not contemplating that you should do it? A.—I think so. I do not see how anybody could get it out of any clause in the Act where such a suggestion could come from.

Q.—What I was asking you at the moment was the one thing, that in your investigation you are watchful to see that the company have not overstated their assets and understand their liabilities? A.—Correct.

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Q.—And that you do not exercise care to see whether they have overstated their liabilities or understated their assets; you do not take the reverse position at all? A.—No; it has never been—in fact we have in a sense rather encouraged the idea that the assets as stated should be well within bounds; I would much rather see a man have a piece of property worth \$10,000 and put it in at \$8,000, than have it worth \$10,000 and put it in at \$12,000.

Q.—From the point of view that you are examining the company? A.—Yes.

Q.—From your standpoint of examination? A.—Yes.

Q.—As to whether that covers the whole ground or not, that is your view of the Act? A.—Yes. Just now in connection with that I might point out, if you will turn to the document you will see the affidavit on the back. It was required to be sworn to; they are required to swear that they are the owners of the assets that are mentioned there.

Q.—Is this form "C" to accompany the statement? A.—Yes, the form of the affidavit.

Q.—"So and so president, so and so secretary of blank company, being duly sworn deposed, and each for himself says that they are the above described officers of said company, and that on the blank day of blank all the above described assets were the absolute property of the said company, free and clear from any liens or claims therein specified, except as before stated, and that the foregoing statement with the schedule and explanation hereunto annexed and by them subscribed, are a full and correct exhibit of all the liabilities and of the income and expenditure and all the general condition of affairs of the said company on the said blank day of blank last, and for the year ending on that day, according to the best of their information, knowledge and belief respectively?" A.—You will notice that that requires that they shall depose to the fact that all the liabilities are there, but there is nothing requiring them to say all the assets are there, so far as the affidavit is concerned.

Q.—The affidavit does end with a broad general statement that it is a correct statement, and the income and expenditure and the general condition and affairs of the said company are correctly shown. What you point out

is that it rather emphasizes that all the assets are theirs? A.—Not saying that they are all the assets; all that are there belong to the company, but it does not necessarily mean that they include everything they own, whereas it does show that those are all the liabilities.

Q.—You say it is an affidavit which is aimed at securing a correct statement, not overestimated, of assets, and not underestimated of liabilities? A.—Yes, I think that entirely bears out the view.

Q.—Of course the affidavit does contain other general matters, but we are getting your view and the way you work under this Act; that is the subject of enquiry at the present moment. Then do you exercise any supervision as to the compliance with section 27 and those sections there? A.—No. I cannot say that I have ever endeavored to ascertain whether those clauses 27 and 28 are in force or not, or adopted or not, and perhaps one reason for that is—to some extent it has influenced me at all events—that those two sections have been by many considered to be ultra vires; the Dominion Parliament had no right to pass them. It is a matter of contract which comes within the jurisdiction of the Province and not of the Dominion, and you will find where there are cases decided, as there are quite a number, referring to this: I may say there are similar clauses in the Ontario Act. The judges always referred to the Ontario Act and never to this Act.

Q.—It is in a matter of contract and civil rights, and therefore comes within Provincial legislation? A.—Yes.

Q.—But with the view you have taken of your duty under the Act I suppose you would not enquire into that anyway? A.—Well, no, I do not think so. I do not think there is anything in the Act that requires that the Superintendent should in any way pass judgment upon the contracts or any of them.

Q.—That is a clause which you considered put there for the benefit of persons dealing with the company? A.—Yes.

Q.—And it is for them to enforce it? A.—Yes.

Q.—At any rate, the matter has never been referred to in any way? A.—Never.

Q.—Are the company in any way obliged to submit to you copies of policies they issue, or forms that they use?

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A.—They are not, except in two or three of the assessment companies, where their charter provides that they shall send forms of the policies before they are used.

Q.—Could you give me the names of those companies? A.—The Woodmen of the World and the C. M. B. A.—the Catholic Mutual Benevolent Society. Those are the only two I can think of.

Q.—Other than those two you would not get such forms from any company? A.—Well, of course, for certain purposes; for the purpose of valuing the policies of the company we are required to get the policy forms.

Q.—You would have to get the policies in order to compute the liabilities? A.—Yes, to compute the reserve under the policies.

Q.—In that way are samples of the policies issued by the companies submitted to you? A.—Never submitted in the sense in which you mean. They are supplied when we ask for them, and we ask for them for the purpose that I mention; that is for the purpose of being able to make a valuation.

Q.—Would you have on file in your department copies of forms of all policies issued by all these companies? A.—Yes, I imagine we have.

Q.—I suppose you could not properly estimate the reserve without having the policy? A.—No, there are many forms of policies; there are a great many policies now issued that have very peculiar features, and it is necessary to have the policy before you to see what the contract is before you can value it.

Q.—I suppose in the return to you of policies for the purpose of valuing every five years, the statement showing the policies indicates the nature and the kind of policy? A.—It does.

Q.—And if it is a standard policy known to you then you do not look at the particular form; is that the idea? You do not require to? A.—No, but if there is any special—

Q.—If there is any special kind you have to examine that particular one? A.—Yes, to see what its provisions are.

Q.—And in that way you think probably all the forms of policies in use have got into your office at one time or another? A.—I think so.

Q.—Then, of course, all the provisions in that section would come in the same way. Have you ever had occasion to act under section 29? A.—Never within my time. Quite recently, however, we received a notice of a judgment against a company, notice of two judg-

ments against a company, and upon receiving the notice I communicated with the company and told them the consequence of those not being paid. The result was the judgments were paid before the time, the sixty days, had expired, and so the license was not withdrawn.

Q.—In a case like that would you get any explanation from the company why the claim had not been paid sooner? A.—Well, no.

Q.—Did it cause you to make any enquiry as to the condition of the company? A.—Well, of course, I had a general idea of the cause of it; the company is a company recently admitted into Canada, and it has been in rather bad order for a length of time, and I believe just at that particular time had no chief agent; the chief agent who had been appointed resided in Montreal, and had left the city and gone to New York; it was at a time when there was really nobody to look after the business of the company.

Q.—You mean to say such circumstances existed in that case which you knew of? A.—Which I was aware of.

Q.—That you could reasonably account for that without putting you to the task of finding out whether any insolvent condition existed? A.—Oh, in the case of this particular company, it is an entirely solvent company; there is not any question about that.

Q.—So that there was nothing then to cause you to make any further enquiries as the result of that? A.—No.

Q.—And that is the only case where you have been called on to do anything under that section? A.—Yes, even to notify a company; that is the only case.

Q.—I suppose in the very nature of things, so long as the reserve is anywhere nearly kept up, that claims under policies must be paid? A.—Well, as a rule, you know they are paid with, I think, very little delay.

Q.—Have you acted under section 32? I suppose you have. That is where companies have ceased to do business? A.—Oh, several cases.

Q.—And do the provisions of that seem to work out all right in administering? A.—Yes, there is no difficulty in working them out. Sections 32, 33, and 34, I think, go together and point out the procedure; we have had several cases of that kind.

Q.—And there is nothing developed in the working out under those sections—nothing that can be improved? A.—Well, it has been considered that these sections work a hardship in certain cases.

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Q.—What cases? A.—Well, now, the result here is that a person is obliged to take the reserve that is tendered. A certain amount is tendered.

Q.—Or else it is returned to the company? A.—Or it is returned to the company. It may be a hardship upon the person who is in poor health. To a person in perfectly good health the return of the reserve is probably very nearly all he is entitled to. But with a person in poor health, who may be expected to drop off any moment, it is not so. If the company had continued in business until the man died, it is not simply the reserve he would get, but the face of the policy; so that the reserve really in cases of that kind does not indicate, or does not properly measure, the actual value of the policy to the insured.

Q.—That is to say, the actual value in a particular case might be more than the reserve? A.—Yes.

Q.—And I suppose in many cases would be considerably more? A.—Yes.

Q.—And under this Act where a company is ceasing to do business there is a tender made to the policyholder of his share of the reserve? A.—Yes.

Q.—And then, if the policyholder refuses to accept that reserve, the reserve is then paid to the company? A.—Paid to the company.

Q.—The effect of that is what, if paid to the company? A.—Well, if paid to the company the policy remains in force, and he has to take his chances of collecting it.

Q.—The company have that asset left, which the company has to carry, and the policyholder has to take his chances of getting that asset back from the company, with the interest that has been earned on it? A.—When it has become a claim to get the face of his policy.

Q.—In fact it forces policyholders to accept, does it not? A.—In very many cases that is the practical result.

Q.—Whether he wants to or not? A.—Yes.

Q.—There is no provision here that can compel the company to reinsure that party in some other company? A.—No, there is not. No provision by which they can compel them to reinsure, no. There are many cases where it would be absolutely impossible to get a company to reinsure.

Q.—But that is the way in which it worked out, and can you suggest any improvement on that, on what is in the Act? A.—Well, it is not easy; it is a

difficult thing. If provision could be made by which the person was allowed, in cases of that kind, to continue to pay the premium to somebody or other—it was at one time suggested that it should be paid to the Government.

Q.—In a case of that nature? A.—Yes, in a case of that nature; and the premiums should be continued to be paid, and then when it became a claim that the man would be entitled to the full amount, but then there was a difficulty about that; where would the money come from necessarily? Because the amount of premiums paid in, the chances are, would not be a tenth part of the amount of the claim.

Q.—It would compel the Government to be an insurer to that extent? A.—Yes, and generally, as a rule, a loser as well.

Q.—And if that clause were in there would be very few who would take the reserve on their policy? A.—No, they would have then what would be called a pretty safe policy.

Q.—Is there anything else regarding those sections that you have in mind that you could say that would be of any assistance? A.—No. In the working out of the cases that have come under the Act within my time, that is the only thing that has arisen that called for any comment.

Q.—Then there is a provision in section 35 which relates to the computation of reserves, which, to a layman, would seem to be in conflict with the previous section above, computation of reserve, which is in 10a. What does that mean? “When computing or estimating the reserve necessary to be held in order to cover its liability, and so on, each company may, as to policies issued on or after a certain date, make certain computations by other standard tables of mortality than the one specified”? A.—The difference between that and the other is the particular standard table of mortality. Some of the companies doing business in Canada—

Q.—Canadian companies or foreign companies doing business here? A.—I think most of the Canadian companies use the H. M. tables, but I think the Great West uses the Combined Experience; that is, the American table, or the America Experience, I don't know which. This permits them in making their valuation to make it in accordance with the table and rate of interest they have adopted in preparing their premiums, in

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fixing their premiums. Then the general provision comes in, that is lower than the standard provided for by the section 10, it may be revalued, and if there is a difference between the two, it is that contained in the previous section that governs and would be inserted in the report.

Q.—This section authorizes companies to compute their reserve in a different way than the way specified in the previous section, but if the company gets a different result— A.—If it gets a similar result—

Q.—No, if it gets a larger result? A.—There would be no reason for doing it in that case. It is the case where it is less than is provided for in the section. If they have charged themselves with more than they should be legally charged with under the Act, nobody finds any fault.

Q.—Or if they have retained more than they are legally bound to retain, there is no complaint of that? A.—No.

Q.—If the section works out in that way, what is the practical use of it? The previous section requires the company to maintain a certain reserve— A.—I cannot say that it is any advantage to the company to have it. It is a matter of convenience to calculate the reserve according to the same table and rate of interest they have used in fixing their premiums.

Q.—Does the method adopted by the company in calculating its reserve become communicated to you? A.—That is a part of the return made in one of the forms, I think it is page 4, the footnote contained on page 4 on one of those statements, "State table of mortality and rate of interest employed in computation, or where an estimate only is given, state the basis of such estimate." So that the statement gives the basis on which it is calculated, and then it is a simple matter to ascertain whether that reserve is greater than it ought to be. I think Mr. Blackadar or Mr. Grant would tell you whether the table calculated according to the American Experience at four per cent. interest was greater than it should be.

Q.—So long as the actuary knows the table and the rate taken by another company, he can say whether that is going to bring a result that is greater or less— A.—He can say at once whether it will be greater or less than the result called for by our valuation.

Q.—That is, assuming the proper calculation of it by the other company, that he can then check it in that way? A.—Yes.

Q.—But when the policies are valued once every five years is any regard paid to the method adopted by other companies or authorities, or do you start out unincumbered by the method adopted by anybody else? A.—Wholly unincumbered? A.—Wholly unincumbered.

Q.—You do not consider that at all? A.—No.

Q.—You do not consider their figures, but make out your own? A.—Yes.

Q.—Have any re-computations taken place under this section? A.—I have no recollection of its being necessary to make any re-computation. The section provides for the company asking the department to make the computation for them. That has been done in a few cases.

Q.—Tell me what kind of companies ask you to do that, Canadian or foreign? A.—One foreign company has asked us on several occasions; that is the National Life of the United States; it is one of the retired companies with very few policies in Canada, and I presume they have not an actuary; I do not know the reason. At all events they found it cheaper to get the Department to compute the reserve than to have it done elsewhere.

Q.—Have the Department figured our reserves for Canadian companies? A.—I think I have a recollection on one occasion of a company in Montreal two or three years ago asking the Department to calculate the reserve for them.

Q.—And that was done under this section? A.—That was done under this section.

Q.—And paid for by the company? A.—Paid for at three cents a policy.

Q.—That would be entirely on account of not having an actuary to do it? A.—That would be the cause, I think, in each case. I do not know of any other reason for it.

Q.—Do you in any way ascertain whether the companies have actuaries to check their figures? A.—Oh, it is a matter of common knowledge that the majority of the companies have actuaries; a chief actuary and one or two assistants.

Q.—Some companies have none? A.—Some, yes, for example, I think a company in Winnipeg—I do not know that it has any real actuary. These com-

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panies have what is called a consulting actuary, who visits the company periodically, and in the meantime there is perhaps somebody in the office of the company, while not being an actuary, has sufficient knowledge of the subject to be able to calculate the reserve from tables of mortality that are prepared for him.

Q.—He can carry it on in the meantime? A.—Yes.

Q.—And then the figures are dealt with by the other actuary when he makes that inspection? A.—Yes.

Q.—So that this section has not been very commonly used, I gather, in the way of employing the Department? A.—No, very rarely. We get very small revenue from that.

Q.—Then the other section there relating to assessment in mutual or assessment life insurance companies, I do not know that for the present we need to bother about, unless there is something you care to say about those provisions of the Act? A.—Well, only this, with regard to the business of assessment life insurance in general: I think it was a mistake ever to have permitted companies to do business on that basis in Canada. The history of them in this country has not been satisfactory, and it would be my recommendation that hereafter no company shall be licensed to do business upon the assessment plan.

Q.—How many companies are there now licensed to do business on the assessment plan? A.—There are, I think, four in all; the Independent Order of Foresters; that is the only one that is strictly licensed; that is to say, it has made a deposit and is licensed, and is put in the list of licensed companies. There are other companies; the Commercial Travellers, the Woodmen of the World, and the C. M. B. A.—Catholic Mutual Benefit Association—that are registered and are doing business upon the assessment plan. Those are the only ones. Up to 1904 there was the Mutual Reserve Company doing business upon the assessment plan, but in the year 1904 it obtained a special act, under which it was enabled to throw aside the assessment features of its business, and to convert all its old assessment policies into regular level premium policies, and so now it is doing business on the level premium or old-line plan, just the same as the regular companies.

Q.—Do these companies, the four companies that you have mentioned, send in returns every year? A.—Yes.

Q.—The same as the straight life companies? A.—Yes.

Q.—And those returns are checked, are they? A.—Yes.

Q.—And you inspect the business of these companies at their head offices, the same as you do all other companies that are under the Act? A.—Yes, precisely the same way.

Q.—Then are there any assessment companies incorporated elsewhere doing business here? A.—No, there was one, the Mutual Reserve; there were also originally the Massachusetts Benefit, and the Covenant Mutual; these two went into the hands of liquidators and have been wound up.

Q.—You say you think it is a mistake to license the business of these companies in the Dominion? A.—Yes.

Q.—On what do you base that statement? A.—Well, the unsatisfactory record of the companies. Generally, after going along a little while, they collapse. Originally, I believe the first one was the Canadian Mutual Aid, a little association, with head office in Toronto; the Provincial Provident and the Canadian Mutual Aid; that association was taken over by the Massachusetts Benefit, and the Massachusetts Benefit went into liquidation, and its affairs were wound up under an order of Court in Toronto. The Provincial Provident was taken over by the Mutual Reserve. As I say, the Mutual Reserve had to come here to get an Act to enable it to change its method of doing business. There was a company, the Mutual Relief Society, in Nova Scotia, an assessment concern, and it was taken over, too, by the Massachusetts Benefit, and one after another has dropped out; there were quite a number of them originally, but now reduced to the four that I have mentioned.

Q.—There are only four here now, and the companies that you have mentioned are companies that have been doing business here and have ceased to do business here? A.—Yes.

Q.—By reason of not being successful? A.—They have all been wound up in effect. The Canadian companies have transferred their business to other companies, and the other companies have later on failed.

Q.—What do you consider to be the weakness of that system of insurance? A.—Well, understand, the system of insurance is this: they pretend to collect as they go along; during the earlier years, when the death losses are small,

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they have not much to pay. They levy small assessments. As the company advances, and the death rates get a little larger, then they levy still larger assessments, and so it goes on. By-and-bye the time comes when the assessments are getting tolerably large. Then the members begin to find fault, and they drop out, many of them. The good lives will drop out, and only those that are impaired will stay on, and they will stay on because they cannot get insurance anywhere else; and so the time is not far distant when they have to close up, and really the company is found to be no service whatever when the policyholders really want security.

Q.—Does such a company require to carry a reserve? A.—No.

Q.—Not required under this Act? A. No, there is a special provision in it that the company is not required to carry a reserve.

Q.—Instead of having the system where you take a level amount, and keep it for a reserve, the premiums increase with age? A.—Yes.

Q.—And the reserve is supposed to stay in the pockets of the policyholders? A.—Yes, and it stays there for all time.

Q.—And for that reason, in view of the experience, you think it was a mistake to commence to charter or incorporate these companies, or license them under the Dominion Act? A.—Yes.

Q.—How long has the Dominion been licensing or incorporating such companies? A.—The Act under which it was permitted first was in 1885, passed in June or July, 1885.

Q.—Previous to 1885 were any companies permitted to do business in that way, in that style? A.—No, they were not.

Q.—In Canada? A.—No.

Q.—With any Dominion charters? A.—No.

Q.—So that the companies you have referred to have all appeared and disappeared since that time? A.—Since 1885.

Q.—Without computing reserve for them, because they have no reserve, you had to take their statements of their mortgages and bonds and securities? A.—Yes.

Q.—Are the provisions that apply to investments under the Insurance Act the same for such companies as for the ordinary level premium companies? A.—That is governed in each case by an Act of the company.

Q.—They do not come under section 50 of this Act? A.—No, not directly; at least in the case of the Independent Order of Foresters two views were held; one was that this Act of 1899 did apply to them, and the other that it did not, and so to make quite certain the Order asked for an amendment to the Act under which they were authorized to invest, section 7 of chapter 100 of the Statutes of 1901. "Section 6 of chapter 104 of the Statutes of 1889 is amended by inserting after the words 'Or any of the Provinces thereof' in the seventh line of the said section, the words 'Or any of the securities specified in subsections 1 and 2 of section 50 of the Insurance Act.'"

Q.—So that they are affected by section 50, but only by reference to that section, as stated in their own Acts of incorporation and amending Act? A.—Yes.

Q.—Then in the case of such a company as that do you in any way check whether the securities are under the Act of incorporation or not? A.—Oh, yes, we see that they are, I think—yes, I do not think they have any security that does not come within the definition contained there. Their securities—and now they have quite a large amount of securities—consist very largely of mortgages, and one item of their assets is contained of stock in the Union Trust Company. Trust companies is one of the companies mentioned in which they are permitted to invest; they have a few debentures, but it is principally on mortgages and in the stock of that trust company; they are the principal items.

Q.—Is a considerable amount held in the trust company? A.—Yes.

Q.—That is an investment authorized by the Act, and being authorized by the Act you have nothing more to say about it, in your view? A.—No, I have nothing more to say about it.

Q.—Have you ever had any question between yourself and any one of these assessment companies, in any one in particular, in regard to their investments and powers of investment? A.—No, I have not.

Q.—They seem to have kept within the line all along? A.—Yes.

Q.—And your check as to that would be just of the same nature as to the other companies that you have told us about? A.—Yes.

Q.—Has any company applying for a license under the assessment provisions

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been refused the application? Was there any question of that nature arising? A.—Yes, questions have arisen. I have frequently had enquiries to know the conditions upon which they could be admitted to do business in the country, and for some time past the invariable reply is, while I do not tell them it won't be granted, that in view of the bad record of these companies, I thought it was exceedingly doubtful whether they would obtain a license, and that has generally had the effect of their not putting the application any further.

Q.—Shortly you have sought to discourage them from applying? A.—Yes.

Q.—That is practically what you mean? A.—Yes.

Q.—When you become aware that application for a license may be made, then, while not saying that they cannot have it, you seek to get them to change their mind about applying? A.—Precisely.

Q.—That is because of the view of the Department, is it, that it is not a desirable class of business from a public standpoint to encourage? A.—From the public standpoint; it is insecure.

Q.—In doing that you feel you are acting in the interests of the public to that extent? A.—Yes.

Q.—Then there is provision, I notice, in the Act for certain words being printed on policies and applications, and so on, assessment system, and so on? A.—Yes.

Q.—Have you any means of ascertaining whether that provision of the Act is in force? A.—Well, only this in the case of these assessment companies we always get from the company a form of policy just in the form in which it is to be issued under the assessment system, and then there are some words required to be put upon it, and that is that an action may be brought in any—

Q.—There is some other provision such as that? A.—Yes, and we always see that these are upon the model that comes to us.

Q.—Upon the form submitted? A.—Yes, but it would be quite possible for the company to issue something else, and we would never hear of it, but I do not think—and I have no reason to think—that that has ever been done.

Q.—You have received no official complaint in that way? A.—No.

Q.—The Act provides penalties for contravening that section. Have many companies taken advantage of section 42a, and applied to be transferred from the assessment style? A.—Only one company; that is the Mutual Reserve. They applied and gave the notice that is mentioned in that section. That would relate back, I suppose, to 1900. This was passed in 1899. That section became a portion of the Act in 1899. I think it would be after 1900. In 1900 the notice was given. Then the Act of 1904 which I have mentioned put not only the business transacted after the giving of the notice, but the bulk of the other business also upon the level premium plan, so that that section became wholly inoperative.

Q.—You say there is an Act of 1904? A.—Relating to the Mutual Reserve Fund Association alone—a special Act.

Q.—What was the effect of that? A.—It is not in that book; it happens not to be put into that.

Q.—I do not know that it is material. I was just wanting to see what it was. Was special legislation enacted regarding that company which prevented it coming under this section? A.—It was under this section, and under this section a portion of the business—

Q.—What remained on the assessment principle? A.—Yes; that taken prior to the giving of the notice remained on the assessment system, and that which was taken after the giving of the notice, which was, I think, in August, 1900, would be on the level premium plan. The effect of the Act of 1904 was to put the whole of the business, or to give the company power to get the whole of the business upon the level premium plan, and of course there was a provision in the Act which provided that certain policyholders, if they wished, might stay on the assessment plan, and I believe there were a few, but the bulk of the business is on the level premium plan.

Q.—So there is no case at all covered by that section? A.—Not one.

Q.—What have you to say about this section as relating to transfer of— A.—Well, with regard to that, of course now there are only these assessment concerns, the three or four that I have mentioned, that can give the notice, and I think this clause ought to be repealed.

Q.—What is the objection to enabling the company to transfer from one kind of business to the other? A.—The dif-

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difficulty of working it out is the objection. Here you would have practically two companies, one doing business upon the level premium plan, and that portion of the business would necessarily be kept separate from the older business. Then you would have one portion of the business upon one plan and the other upon the other, and the portion on the assessment plan would be the older business, and the result of that would be that as that business is decreasing from time to time as the membership drops—it is a decreasing membership and an increasing mortality, with almost a certain result of very speedy collapse.

Q.—And you think then the difficulty of incorporating two such companies into one is practically so great that it is useless to attempt to work out legislation in that way? A.—That is my idea about it.

Q.—That section 42a might as well just be taken out of the Statute? A.—I think it should be taken out.

Q.—And thereby compel companies to start on the level premium basis, or else, at any rate, commence on assessment, and get over to the level premium afterwards? A.—Yes.

Q.—Probably if that section is not much used it is not necessary to refer to it any more. Then there is a section 43 that exempts certain societies and associations for fraternal and benevolent purposes. I suppose that is the section which exempts such societies from this Act? A.—Yes.

Q.—Then if they are exempt under that Act, have you anything to do with them at all? A.—I have nothing to do with them at all.

Q.—If they are exempt under that Act they do not come under any other Act that brings them under your jurisdiction? A.—Not under my jurisdiction.

Q.—Would any of the societies or associations that are exempted there still come under the operation of the Order-in-Council authorizing this investigation? A.—No, anything is excluded that comes under that exception—well, I should not say that, because that Order-in-Council is very broad, and they are not specifically mentioned in it. Under that first clause, to enquire into the general subject of life insurance and life insurance systems—I am not prepared to say it would not come under that, but they are not specifically mentioned.

Q.—You think they are not under the clause under which the operations of certain associations, chartered companies, are to be enquired into? A.—No, because that mentions companies chartered by the Dominion or chartered by the Province and licensed by the Dominion, and they do not come under either of these two headings.

Q.—You would have, I suppose, no list of companies except under that section? A.—Oh, no. There is in Ontario a Friendly Societies Act.

Q.—You have nothing in your department that gives you a record or list of the names? A.—No, nothing.

Q.—I think there is an amending Act, or a further Act, which does not purport to be an amending Act, whereby certain societies may be exempted from the Act, or where it is a hazardous risk or business they are following? A.—Yes.

Q.—Have any of the societies ever been exempted under this clause? A.—There have been either one or two, I am not certain, certainly one, I think possibly two, the Railway Trainmen, I think one, of Galesburg, and I think the other of Ohio. However, I can ascertain the names of these two.

Q.—And they would be excluded from the Act just on the ground, I suppose, stated in that Act? A.—Precisely.

Q.—That the work itself was so hazardous that the members of that association could not get insurance at written rates with other companies? A.—They could not get insurance at all, or if they did get it—

Q.—If they did get it, it would be at such a rate that it would be prohibitory? A.—Yes. In getting exemption they have to bring themselves specifically within the terms of that Statute.

Q.—To get exemption you had to get proof? A.—Yes, that they came within the conditions of the Act.

Q.—The next sections, from 45 to 48, apply to Inland and Marine, and 49 the same. Then the next section that concerns us is section 50; that is a section that was added to the Act, was it not — A.—In 1899.

Q.—Before that section was passed was there any provision in the Insurance Act as to securities upon which the companies could loan money? A.—There was none.

Q.—What governed that? A.—The provisions in the charters of the different companies in their Acts of incorporation.

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Q.—Did all the charters actually refer to that matter, can you say? A.—The charter of every company contained some provision—they were not all alike.

Q.—For investments? A.—Yes, some provision for investments.

Q.—Can you trace out any similarity then between the provisions contained in Acts incorporating different companies? A.—Well, there were certain general provisions in almost the whole of them, say up to 1897; there were a number. Municipal securities were mentioned, and Government bonds, mortgages and debentures of loan companies. These are the principal items that were contained in the charters up to about that time. Then I think the first real advance where it was broadened in 1897, as far as—that is, there were always slight differences between the powers contained in the different Acts, but in 1897 there was granted an Act to the North American Life, which was somewhat in advance of anything that had been previously granted.

Q.—Then the Acts of the older companies were rather broad, were they, as to investments, in some particulars? A.—Yes, two of the old companies; that is the Canada Life and the Sun; have charters very much alike, almost identical with each other. The Canada Life was incorporated in 1847 I believe.

Q.—And the Sun Life? A.—Somewhat later, but the charter is almost in the same terms, and both companies are incorporated by the old Province of Canada; that is consisting of Ontario and Quebec.

Q.—In what respect would you say the powers of investment of those companies were broad? A.—I do not know. I think I gave somebody a copy of the charter of the Sun. It is almost the same as the Canada Life.

Q.—The Canada Life is the older one of the two? A.—Yes. There is one very long section, it appears to be a preamble. It is in the first section of the Act at all events; "And provided also that it shall not be lawful for the said corporation to deal with or use or employ any part of the stock, funds or money thereof in buying or selling goods, wares or merchandise, or in any banking operations whatsoever." And this is the clause: "But it shall be lawful, nevertheless, for the said corporation to purchase and hold for the purpose of investing therein any part of their funds or money any of the public securities

of this Province." And it is a question, what does that mean?

Q.—That Act being passed in the old Province of Canada? A.—Yes. The clause continues: "The stocks of any of the banks or other chartered companies, and the bonds or debentures of any of the incorporated cities or towns or municipal districts." What does that mean? Does it mean to restrict them to that Province, or is that unlimited? "And also to sell and transfer the same, and also to make loans upon or purchase bonds or mortgages and other similar securities, and the same to call in, sell and reloan, as occasion may render expedient." You see it is beautifully indefinite as to what it means; and the Sun is almost the same. Now, under that, whether they possess the power or not, the Canada Life claims very much wider powers than those contained in section 50 of the Insurance Act.

Q.—That is the subject you were referring to this morning as being a matter of considerable correspondence and discussion between you, lasting over some time? A.—Yes.

Q.—I suppose you have not that correspondence yet? A.—No, it will take some little time to look it up, it extends over some time, and has not been kept separate and I will have to pick it out.

Q.—Then, the Sun Life, you say, is very much the same, and as to those provisions about investing and buying stocks and bonds of any chartered company—is that expression peculiar to those two companies only? A.—To those two companies only.

Q.—You find no similar clause in the charter of any other company? A.—No.

Q.—Then, in the case of the companies incorporated after the Canada Life and the Sun Life, the investment powers were somewhat more restricted, were they? A.—They were.

Q.—Until 1897? A.—Until 1897.

Q.—When the North American company procured the Act, of which section 50 is almost indeed the counterfoil? A.—It is pretty nearly the same: there are a few other matters mentioned in section 50 that are not in the North American Life, but the North American Life is the nearest approach to section 50.

Q.—And section 50, insofar as it differs from the statute relating to the North American Life, is a little broader? A.—Is a little broader, yes.

Q.—Is it right to say that the Canada Life and the Sun Life are the only two companies that have broader powers

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than are given by the Insurance Act? A.—I think that is correct.

Q.—Broader than the powers given by section 50 of the Insurance Act? A.—Yes, that is quite correct.

Q.—And section 50 of the Insurance Act, insofar as it operated at all served to bring the others a little closer to those two companies, but did not bring those two companies on the same level as the others? A.—No, it did not.

Q.—Section 50 was not to affect any powers that the companies had with respect to investments which the companies had before that section was passed? A.—That is correct.

Q.—So that the Canada Life and the Sun Life only require to use section 50 insofar as their own Act does not extend to some foreign securities or securities of that nature; is that right? A.—That is correct.

Q.—During the whole of the time this correspondence has been going on between you, were the companies going on investing just as they construed the Act? A.—No.

Q.—Put it as you construe it? A.—No, they have been gradually curtailing, and I understand the Treasurer of the Canada Life to say that within a short time every questionable security will be put out of the way, and only such as come clearly within section 50 will be held.

Q.—You understand him to say that? A.—To me.

Q.—Is that something recent? A.—Oh, yes, it is quite recent.

Q.—How long ago? A.—Within the current calendar year.

Q.—Within the year 1906? A.—Yes.

Q.—I think you said the Sun Life agreed with your construction of their Act of Incorporations? A.—Well, they did not express any dissent from it, but as to just how they are acting will probably appear better later on from the correspondence.

Q.—Leaving that until we get the correspondence, section 50 specifies the debentures, bonds, stocks and other securities upon which the ordinary insurance company, at any rate, can lend money in Canada? A.—Yes.

Q.—Then, it goes on to specify the Dominion and Provincial securities, and any municipality or public school corporation. Then subsection B provides for certain kinds of companies. What effect have you placed on the words, "Which has earned and paid regular dividends upon its ordinary preferred or guarantee stocks for two

years next preceding the purchase of such bonds and debentures." Have you made that apply, in your dealings with their securities, to the debentures and bonds of steam railway companies only which immediately preceded it, or do you make it apply to all the companies that are mentioned in that section? A.—Only to the steam railways.

Q.—So that your construction of that section is that it only requires that additional matter where it is a steam railway security, and it does not apply to the other companies? A.—No.

Q.—Then what construction do you put on the words "Incorporated in Canada?" Have you just taken the literal meaning of that, regardless of where the company operates or carries on business, so long as the charter is issued by the Dominion of Canada, or in any Province in the Dominion; that that is a security upon which the company can lend? That is the construction that has usually been put upon it by the companies. I have not been entirely certain that that is the intention of the Act; I think probably it was not. However, I have had occasion to submit the question in the case of two or three classes of security to the Department of Justice, and later on, if you like, I will produce their opinion bearing upon the question.

Q.—And that will cover, I suppose, correspondence you have had with the companies themselves which preceded the getting of the information? A.—As a rule, I have gone the other way about, and obtained the information, to see what idea the Department had with reference to it, and then communicated that to the company.

Q.—And then I suppose there would be correspondence with the companies, whether before or after the information? A.—There was always correspondence.

Q.—I suppose there has been no question as to the company being incorporated in Canada; you have not literally construed that to mean by the Dominion Government? Have you taken any Ontario incorporation, or Quebec incorporation to be incorporated in Canada? A.—I should assume so.

Q.—That is the way you have construed it? A.—That is the way I have construed it. "Incorporated in Canada" are the words. It does not say "Incorporated by Canada," because then it would bear a different construction.

Q.—I thought that would be the construction you would place upon it. I

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just wanted to know that. Then; with such a list of securities as that, and such a broad investment power, must you not have great difficulty in ascertaining the market value of these securities when you are going over and checking the statements they put in? A.—Practically there is little difficulty with regard to that. The companies have not invested in all the classes that are mentioned there, and we have usually been able to ascertain, either from the lists, or from other reliable sources, the value of the securities.

Q.—Take a security of the kind I mention, the security or stock of a company incorporated in Canada, but doing business elsewhere than in Canada, doing no business at all in Canada, how do you fix the value of that stock or bond or debenture? A.—Well, there are perhaps one of two kinds that come within that list; probably Sao Paulo. I think the value of the bonds and stock of that company are probably as well known as that of any other company.

Q.—You might think so now, but not always. I suppose you would meet some Sao Paulo bonds fairly early, would you not? A.—Quite a length of time ago, I do not just remember when.

Q.—You were rather struck with the name the first time you met them, I suppose. A.—Yes.

Q.—So that you were not very well acquainted with them the first time you met them; but taking a security such as that at that time, how did you fix any value for that security? A.—Well, the position is this: the company fixed the value, and returned it to me and swore to it as the correct value, and then I have endeavored to ascertain whether that was the value which was ordinarily or currently placed upon it. Other people had dealings with it.

Q.—Take a security such as that, what people would you get information from besides the company you were dealing with? I do not mean to refer to that company particularly; I mean to refer to the issue of debenture bonds when they are first issued; when a company is commencing operations, how do you fix the value of such bonds or debentures? A.—Possibly there is no real method of fixing the value, except by ascertaining what they cost.

Q.—Is that ascertained in the case of bonds and debentures by just the top

of the page? A.—I do not understand that question.

Q.—Or is it ascertained by looking at the papers that form the transaction whereby the company secured the bond? A.—I cannot say that I have ever had occasion to go minutely into the value of any such bond as that.

Q.—Would you in your examinations sometimes find large holdings of some debentures that you could not tell the value of because they are not marketable at the time? A.—Yes. There are occasions when there is no known means of ascertaining precisely what they are worth, because they are not listed. We are practically helpless in that case, and have to take the value that is put upon them by the company, also bearing in mind, of course, that it is a sworn value.

Q.—There is an affidavit in which some person pledges, or in fact two persons pledge their oath to the correctness of that? A.—Yes.

Q.—But you have never considered it in your power, at any rate, to object to any such securities, so long as it was a company incorporated in Canada, no matter at what stage of the operations of the company those bonds or securities were taken? A.—No.

Q.—Nor to what extent they were a marketable security at that time? A.—No.

Q.—You would just be concerned with seeing whether it was a stock, bond or debenture that came under the Act, and that it was not entered in their books as of a higher value than was paid for it, unless you were satisfied that this higher value had been properly accounted for in the market? A.—Precisely.

Q.—Sometimes you would find them to be higher than they had been received at? A.—That occasionally happens, but as a rule it would be found that there were two values in the books; that is to say, the market value and also the book value. The Statute requires the par value and the market value; that is always returned, and you will find as a rule also the book value; that is the cost value to the company at which they are carried in the books.

Q.—That is returned and you have that all before you? A.—Yes.

Q.—And if there is that appreciation in the security shown in the books of the company, do you find that a stock, bond or debenture that is entered in the books, or treated as being of a certain

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value one year, is of a different value another year? A.—Do you refer now to the market value?

Q.—Yes? A.—Oh, yes, the market value does go up and come down.

Q.—Does the value at which the company carry it alter? A.—No, not as a rule. The book value will remain the same, while the market value fluctuates.

Q.—Does the book value of the security ever appreciate? A.—Well, once in a while, what is known as writing up is adopted by the companies; that is to say, they place a little higher value than that at which they purchase it, and in that way what is called the book value is changed, written up; that occasionally happens.

Q.—Sometimes they are written down? A.—Sometimes they are written down. Of course, there are certain cases in which, while I may say generally I do not approve of the writing up or down as a general principle, but there are certain occasions in which it is not only justifiable, but proper. Take the case where a company buys a security below par, gets it quite below par, then it is quite proper to write that up gradually, so that at the time it is paid it reaches par. You understand that it is gradually increasing in value as it reaches maturity, so that it should be written up until at maturity it reaches par. Then on the other hand, there are certain securities which are purchased at a premium. These should be from time to time written down, until at maturity they reach par again.

Q.—Then when you find the price varying, do you make any independent inquiry, or investigation to check that re-written value? A.—Well, of course, it is written up and written down, just in the method I have now described, and as a matter of fact, I think the value from year to year is always inserted in the books of the company showing what it is each year up to March; that is usually done at the time the security is purchased and placed in the books.

Q.—As a matter of fact, in that way you can verify some of the changes that are made? A.—Yes.

Q.—Then do you find other changes made because the market value has depreciated? A.—That has been done occasionally. That is a thing I don't like to see done, although I cannot say it is forbidden by Statute. It is sometimes done, and when it is we, as a rule, take care to see that the value inserted there is not more than it is worth. It sometimes has its advantages. Take a case of bank stocks, where a bank stock

is purchased at 110 or 120, and subsequently goes up to nearly 200. That is a case which I think may occur and possibly has occurred.

Q.—Have you any case in mind? A.—No, I cannot state a specific case just now. In that case it could be, and I think would be, argued that it would be quite permissible to write that up somewhere near its market value, always keeping it so low that the market value would be always equal to or slightly in excess of what it was put at.

Q.—Then in regard to that your only concern is to see that they have not got the security written too high? A.—Yes.

Q.—You never at all charge yourself in any way with seeing that the security is not put in too low? A.—No.

Q.—That would be naturally the way you regard the Act and your duty under it? A.—Yes.

Q.—What is the object of authorizing a purchase under subsection c of life endowment or other policies or contracts issued by the company, or by any other life insurance company—what is the object of having the company purchase its own policy? Would that be taking a surrender of it? A.—That would be the effect of it.

Q.—Does a company ever buy its own policy and carry it on? A.—I do not know of its own policies. I do not know of a case where it has bought its own policies, but it has happened with regard to other companies' policies.

Q.—It struck me as odd, unless it is taken to be a surrender of the policy, giving the surrender value. Do you know of any other construction? A.—I do not know of any other construction that would be put upon it, unless taking a surrender of the policy.

Q.—You have not in your investigation found companies attempting to carry on their own policies as being policies in which they are entitled to the money when some person makes it a claim— A.—No. We do find loans on policies, and on the policies of every company, but I have never seen a policy of a company carried in that way by itself.

Q.—Then D. provides for public consuls and stocks and bonds of the United Kingdom and the United States? Then I think that clause is limited, is it not, by some other clause. Clauses 4 and 5 are the ones, are they not, that limit that power of investment in foreign securities? A.—Clauses 4, 5, and 6, I

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think, are the clauses. A company doing business in the United States, one doing business in the United Kingdom, or one doing business in both places, or elsewhere than in either place.

Q.—And the limitation on such foreign investments or investments outside of Canada, in a broad way, is that it shall not exceed by over ten per cent. the reserve or re-insurance values of policies in force outside of Canada? A.—Yes.

Q.—So that it gives to the company the liberty of keeping the fund to the amount of the reserve of the re-insurance value of the policy in the country in which their policies are carried? A.—Yes.

Q.—To that extent giving to the policyholders there that security? A.—Yes.

Q.—And the ten per cent. is the way that is given in favor of the foreign country; they can exceed their reserve by ten per cent.? A.—Yes, but it must be understood that these securities are not, as a rule, kept in the foreign country. They are nearly always kept in the head office of the company in Canada.

Q.—Do you check the amount of foreign business of all companies? A.—Yes.

Q.—And you check the value of securities held in that country? A.—Yes, the value of foreign securities wherever they are.

Q.—And you compute whether it is more than the ten per cent. increase or not? A.—Yes.

Q.—You have found cases, I suppose, where they exceed the ten per cent. increase? A.—The ten per cent. margin?

Q.—Yes? A.—Yes. I mentioned a couple of cases this morning.

Q.—I think you mentioned cases this morning where there was some little difficulty about getting it fixed right? A.—Yes.

Q.—Have you ever met other cases where you have had complaints, and it has been changed without that difficulty? A.—Well, a case which I mentioned this morning, I may mention the company, the case of the North American, while they do admit the general fact that they have more outside than is authorized by the Act, they contend that it is less than it is according to my view. We are not entirely agreed as to the fact.

Q.—As to the excess? A.—No, and with regard to that matter, I have a letter which I can produce; probably that will be the better way.

Q.—“Ground rent and mortgages on real estate in any Province of Canada” there is no limitation on the percentage of value up to which they can lend? A.—None whatever.

Q.—You say you do, by checking the valuation put in at the time, ascertain whether it really is a security for the amount that it purports to be? A.—Yes.

Q.—Further than that you do not go? A.—That is all.

Q.—You do not enquire into it as to whether it is a wise and judicious investment more than just to see that it can be fairly treated at that time as being what they say it is, a security for that sum of money? A.—Yes.

Q.—“Any securities accepted by the Treasury Board as deposits from insurance companies under this Act”—I think you gave us the ruling of the Treasury Board? A.—Yes.

Q.—There is the provision in subsection 3 as to the amount necessary to be carried abroad in order to carry on business. Why is that provision put in here, when there is the other provision as to carrying an amount in a foreign country that does not exceed the reserve by ten per cent.? A.—It is a little difficult to explain why. One of these clauses is in there. Clause 3 would be found in most of the charters. Then, of course, possibly if one were to frame this section again, and sit down quietly, and do it before it came to the House, it would not be in just the same form as it is now, but it would be entirely different. As it now stands it was the work of the Banking and Commerce Committee.

Q.—I think you prepared a sort of summary showing certain items regarding the different companies from 1890 down to the end of 1905, is it, or 1904? A.—1905.

The Chairman: Q.—Fifteen years? A.—That is sixteen years.

Q.—It is including both? A.—Yes.

Mr. Tilley: Q.—And those statements give the information that is shown on them with reference to cash expenditure and so on? A.—Yes.

Q.—And certain parts of that are figured out according to percentage, on request? A.—It has been done in the office under my instructions.

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Mr. Tilley: This will be Exhibit 11. Exhibit 7 was a document which should not have been put in, and it will be withdrawn, so that this will be Exhibit 11. This is put in now for the purpose of being examined and criticized.

The Chairman: Q.—This is a summary of information which has already been published? A.—Yes, all this information is contained in and taken from the blue books.

Q.—And mostly from returns received from companies? A.—Yes. When I say blue books, I should qualify that, because as to the business of 1905 it has not yet got into the blue book, and that was taken from the returns which have just come in.

Q.—But it is information which is published in the blue books? A.—Yes.

Mr. Tilley: Q.—Can you make us some copies of this? A.—I think it would be difficult to make you copies of that on the typewriter.

The Chairman: It might be printed.

Mr. Tilley: If Mr. Blackadar could be here in the morning to be examined, perhaps Mr. Fitzgerald could look up the correspondence for us.

The Chairman: I may say to counsel that we think we will not sit on Saturday, nor on Monday, but I think we will sit on Tuesday at ten o'clock. We will adjourn now till to-morrow at 10 a.m.

(Adjourned till 10 a.m. to-morrow.)

FIFTH DAY.

Ottawa, Friday, March 16th, 1906.

Mr. Tilley: I will call Mr. Blackadar now.

Mr. Hellmuth: I see Mr. Blackadar is here this morning, and before the witness is examined I desire to protest against the taking away of the witness, Mr. Fitzgerald, until I have had an opportunity of examining him. I would submit that it is a very unusual course to have a witness examined for two days on behalf of the Crown in the right of the Dominion, and then to withdrawn that witness from the stand, and to substitute another witness for him. It is certainly not according to any procedure that would be followed in any court, and it casts an undue strain upon counsel if they have to

prepare for the examination of witnesses, not only after that witness has given his evidence, but after there has been interposed the evidence of other witnesses. It would be impossible to do justice to the matters arising out of the examination of Mr. Fitzgerald, so far as the interests of the policyholders are concerned, if we are to have the whole, or any more, of the officers of the Department examined before Mr. Fitzgerald's examination is, so far as we are concerned, concluded. And in addition to that, it is a very serious question whether the proper elucidation of this subject can be had if Mr. Fitzgerald's examination is not concluded, at all events on the points that he has given evidence upon, before any other witness is examined. As I understand it, one of the chief matters of interest, at least to the policyholders, is what duties were performed by Mr. Fitzgerald the subjects that were, or are, supposed to have been entrusted to him, and it is very material that we should know what knowledge Mr. Fitzgerald possessed in regard to these matters prior to this investigation, and not what knowledge he may have acquired since, or have acquired during the course of this investigation. The policyholders are entitled to know how far the Superintendent of Insurance, who is the highest officer entrusted by the Government, supposedly, with their interests, I assume, had prior to any investigation at all, and on behalf of the policyholders of the Province of Ontario, I beg to protest as strongly as I am capable of against having an actuary such as Mr. Blackadar give his evidence, and then, possibly with the knowledge acquired from that evidence, having Mr. Fitzgerald put back upon the stand. I submit it is unusual, it can serve no good purpose, if the inquiry is directed at all as to the safeguards that Mr. Fitzgerald may have thrown around the policyholders, if we are now to have his evidence interrupted. There are many matters that have arisen out of the examination by my learned friend, Mr. Tilley, upon which I should like to have had more light, and I do not think that I should be in the position of having to carry two days' evidence of Mr. Fitzgerald in my mind, and then perhaps two or three days of Mr. Blackadar, and perhaps some other witnesses. I should like to have the ruling of the board whether when a witness has been called and examined at such length—because the board will see that Mr. Fitzgerald was not called merely to produce documents, and he has been, at

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all events, two days under examination—whether it is not reasonable, if my learned friend has, for the time, at all events, finished with him, that he should be recalled for further examination by other counsel. I should like to have the Commissioners' ruling as to whether I am not entitled to cross-examine him now.

Mr. Tilley: My position with regard to Mr. Fitzgerald is very much the same as that of Mr. Hellmuth. There are many things that came out in his examination upon which I desire more information, as well as my learned friend, and upon which we intend to have more light. It is true that he was not what would strictly be called a witness to produce documents, but he is a witness through whom many documents will yet be produced, and many documents that we asked him for yesterday, he stated, could not be obtained for to-day. Now the desire of counsel who are assisting in the conduct of the inquiry is that no time should be lost, if that can be avoided, and my idea was that Mr. Fitzgerald could pursue the task of searching for these letters and papers and correspondence to-day, and during the adjournment that phase of the matter could be followed up in the Department, and when the Commission meets again next week these papers will be produced, and many things that Mr. Fitzgerald spoke about must be further inquired into, because we are not satisfied with the general statements, or will not remain so permanently, any more than my learned friend Mr. Hellmuth. Mr. Blackadar's examination is very much along the same line. What we are attempting to do is to pursue the line of inquiry that the Commissioners asked us at the beginning to direct our attention to. That is the nature of the legislation now in force, the construction, or the view taken of that legislation by the officials in the Department of Insurance, and the manner in which they administered the Act, and the way in which their duties are performed. That inquiry, in the very nature of things, cannot be a short one. It is one of the matters that is specially referred to in the Order-in-Council appointing the Commission. It is one of the most important matters that your Honors will have to deal with in connection with the different matters that will be brought before you. That being the case, we want the examination of witnesses on that branch to be pursued just as quickly and as speedily as it can be done thoroughly and properly, but no more speedily. We do not want, in

the desire to rush matters, to miss anything. We propose that the examination shall be thorough and searching, and it is for that reason that for the present, and until certain documents are produced by Mr. Fitzgerald, and an examination of them is made, that I propose to leave his examination just where it is, and proceed with the examination of Mr. Blackadar. Until my learned friend suggested such a thing, I could not conceive that persons conducting the inquiry, so long as they are proceeding with the line of inquiry suggested by the Commissioners for the time being, should be in any way hampered in the conduct of their case, and in the order in which they should put in the evidence. My learned friend says that many things suggested themselves to him in the course of the examination. There is nothing that has been suggested by him to me, at any rate, and whatever is suggested we will be most happy to follow, but in the conduct of the examination of the witnesses in the Department, there are matters that appeal to us as good reasons why the examination should be proceeded with in a certain way, and it is because of that that we are taking it up just in the way we are.

Mr. Hellmuth: I do not at all quarrel with the general statements of my learned friend, that he must conduct the examination as he sees fit, but he must not, surely conduct the examination contrary to every method of conducting an examination. He says they want to examine entirely and thoroughly into the Department. Quite so, but when that is done, or when he is calling a witness, I submit he cannot go on, or should not be allowed to go on, and, without any opportunity afforded to the counsel for the policyholders to cross-examine, call witness after witness. It would be a perfectly useless matter for the policyholders who are represented here, if my learned friend should take two or three weeks in going through the Department, and during all that time, as witness after witness is called, one witness is sent away, and another is called, without giving any opportunity of having that witness' knowledge tested, without any possibility of furnishing it up in any way. And my submission is that in the interests of the policyholders the inquiry should be conducted in the way that it would be in

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any ordinary investigation. I would call the attention of the board to a recent investigation that took place—half a dozen recent investigations that have taken place—and I venture to submit that there has never been a case in which the party having the conduct of the investigation, where there were counsel representing other interests, was allowed to substitute a witness and explain the evidence of one witness by another, until that witness had been examined by those who were representing other parties. It would, you can see, lead to this result.

The Chairman: I do not understand that to be the position. The suggestion is now made because Mr. Fitzgerald yesterday stated to us here that he had documents which it would take him some time to find in his Department, as they were not filed in any special way, not in one place, and we assumed that these documents should be here during his examination. His examination is, of course, not closed, and the question is whether we should wait for Mr. Fitzgerald to produce the documents, or save time and go on with Mr. Blackadar, not in the way of explaining Mr. Fitzgerald's evidence so much as to proceed under the second branch of the case that we have started to inquire into. Can you suggest any possible way other than what you have already suggested that the interests of your clients would be prejudiced by proceeding with Mr. Blackadar's evidence while Mr. Fitzgerald is looking for his papers?

Mr. Hellmuth: I think I can, Mr. Chairman. If the head of the Department, who is Mr. Fitzgerald, is personally—I do not say that it is so—but should he be personally incapable at present of explaining certain circumstances, and should that want of knowledge be supplemented by what may be given by Mr. Blackadar, the policyholders would be in a false position, because they would have to then assume that he had all along possessed knowledge on the subject matter which he did not really possess. That is, I think, a very material matter. They should know whether the head of the Department had or had not the necessary knowledge and exercised that knowledge for their advantage prior to any information he may gain on the subject. We all know we are going to learn something from Mr. Blackadar, and that with our knowledge also Mr. Fitzgerald may gain knowledge. My desire is to

find out on behalf of the policyholders what protection they have in the head of the Department, and what knowledge he had on these subjects not supplemented by anyone they may now call. I do not think anyone can suggest that there is any desire to rush the enquiry. If it had been suggested that there had been a delay in the enquiry a great many matters would perhaps have been gone over that did not suggest themselves. There is no desire on our part to rush the enquiry, but there is every desire on the part of those with whom I am associated on behalf of the Ontario Government for the policyholders in that Province to ascertain thoroughly what knowledge was possessed by those who had control here over insurance matters, and all that can be asked is this: Let the questions that suggest themselves to us, with the consent of the Commissioners, be put to him, and my learned friend can recall him for further examination later on. That is a very common thing in the trial of cases in court.

The Chairman: Would your suggestion be to adjourn until Mr. Fitzgerald produces the papers?

Mr. Hellmuth: No. If my learned friend has anything more to ask Mr. Fitzgerald now, I ask that he should continue his examination with the production of the papers. I am not going to examine him on papers he has been asked to produce and has not produced; that would be unfair, but the other matters which have already arisen in this investigation and are cognate to it, should be permitted to be asked.

The Chairman: It seems to me that the counsel having the conduct of the enquiry should be allowed every reasonable latitude in his conduct of it. It does not appear to me that it is an unheard of proceeding for a witness during his examination to be permitted to search for documents and produce documents for the purpose of being further examined in the interests of the persons or class calling him, and allow other evidence to be given in the meantime. Even in a civil action, I think it would be rather a strict rule of evidence that we would be required to invoke if we were asked to make a ruling on that line, especially where there is no suggestion that the veracity of the witness is at all in question; and this is not such a case as that. I think I would be dis-

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posed to allow Mr. Tilley to proceed with the examination of Mr. Blackadar now. If we err at all, it should be in the direction of allowing the utmost latitude consistent with properties.

Mr. Hellmuth: Do I understand that the rule will apply throughout that other witnesses can follow Mr. Blackadar?

The Chairman: No, we are merely dealing with the one question, shall we examine Mr. Blackadar now? When the other question arises we will deal with it.

A. K. Blackadar, sworn. Examined by Mr. Tilley:

Q.—What is your position in the Insurance Department? A.—I am Chief Clerk in the Insurance Department.

Q.—And how long have you occupied that position? A.—I have been connected with the office for 29 years. I have had the position of Chief Clerk, I think, since, if I remember right, 1892 or 1893; 1892 I think it was.

Q.—Since 1892 you have been Chief Clerk? A.—Yes.

Q.—Were you in the Department before Mr. Fitzgerald? A.—I was.

Q.—You have been in the Department, then, the length of time you say, an Chief Clerk since about 1892? A.—Yes.

Q.—Are you an actuary? A.—I am.

Q.—With what qualification? A.—I am a member of the British Institute, a Fellow of the British Institute of Actuaries by examination, and also a member of the Actuarial Society of America.

Q.—How long have you been thus qualified? A.—I obtained the degree of F.I.A. in 1894. I was a fellow of the Actuarial Society of America a few years previous during the first year of its existence, I think about 1891, or thereabouts. I do not recollect the year.

Q.—Mr. Grant, who was in the Department, was also an actuary, is he? A.—Yes.

Q.—Has he some such similar qualification? A.—He is also a Fellow of the Institute of Actuaries.

Q.—And how long have you and Mr. Grant together been in the Department as Actuaries? A.—Mr. Grant entered, I think, about five years ago.

Q.—Then have there always been one or two qualified actuaries in the Department in your time? A.—With slight intermissions, there has been more than one.

Q.—It has been the habit in the Department to have the services of one or two? A.—Yes.

Q.—Usually two? A.—Yes.

Q.—Regularly qualified actuaries? A.—Yes.

Q.—How long have you been Chief Actuary? Ever since you have been Chief Clerk? A.—Well, I may say I have held that position ever since I entered the Department in 1877; that is, at least, under Professor Cherriman. Professor Cherriman was himself a competent actuary.

Q.—Was he head of the Department? A.—Yes, until 1885.

Q.—When Fitzgerald was made head of the Department? A.—Until Mr. Fitzgerald was appointed, Professor Cherriman occupied or filled the position of Chief Actuary. There is no Chief Actuary provided under the provisions of the Insurance Act.

Q.—Since Professor Cherriman left you have been the Chief Actuary? A.—Yes.

Q.—Is your time fully taken up with actuarial work? A.—No.

Q.—What part of your work was your actuarial work? A.—The valuation of the policies as provided in section 25 of the Insurance Act.

Q.—The valuation of the policies as provided in section 25 of the Insurance Act? A.—Yes, for the supervision of that valuation, keeping in view that I always have assistants to aid in that work.

Q.—Then the actuarial work would be practically the supervising of that work; a good deal of the work involved would be purely clerical? A.—Yes.

Q.—And that clerical work would be done under your direction and supervision? A.—Yes. Of course, I personally, when I have time, do a great portion of the valuation work, and also the preparation of tables for that.

Q.—Then under your direction that work proceeds? A.—Yes.

Q.—Leaving that work for the present, as we will come to it under the appropriate section of the Act, does that constitute what you might say is the whole of your actuarial work? A.—That is practically the whole.

Q.—Then so far as actuarial work in the Department goes, is that all that is done? A.—That is all that is done.

Q.—Just the computation of the reserve on policies under the section of the Act? A.—Yes.

Q.—Then besides that actuarial work, what other work do you do? Tell me first, please, how much of your time is

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taken up with that work? A.—Well, formerly the greater portion of my time was taken up with that work. In addition to that I have had general supervision over a great many matters that come up in the Department, such as keeping a record of the deposits of insurance companies. That of late years I have handed over to Mr. Grant, finding my time so fully occupied in other matters.

Q.—That is to say, deposits made by insurance companies under what section? A.—Under sections 7 and 8.

Mr. McCarthy: You might distinguish between the Canadian and foreign companies.

Mr. Tilley: Q.—That is the deposits made by companies to obtain a license? A.—Not only to obtain a license, but deposits that are required from year to year to be made, as the liabilities of these foreign companies increase.

Q.—There are two classes of money paid in to your Department; that is the deposit of \$50,000 that each company must pay in to get a license, and the money that is either paid in to your Department or secured in some way to your satisfaction by foreign companies doing business in Canada? A.—The initial deposit may be \$50,000, or \$100,000, or \$10,000.

Q.—But there are those two classes of moneys that are looked after in your Department? A.—Yes.

Q.—The deposit of \$50,000 under the Act may be increased by companies if they chose? A.—Not if they chose, but foreign companies are required.

Q.—But I mean the Canadian companies, under that particular section of the Act; that is a clause that applies to all companies, whereby a deposit of \$50,000 must be made to entitle them to do business? A.—Yes.

Q.—Then besides that there is the other class of deposits made by foreign companies to answer their Canadian policyholders? A.—Yes.

Q.—Both of those classes of money you were referring to, were you, as deposits? A.—Yes.

Q.—And that part of the work you transfer to Mr. Grant, you say? A.—Yes.

Q.—Then do I understand, then, that since you transferred the work on that particular item to Mr. Grant that you have had nothing to do with it? A.—I would not say that I have had nothing to do with it. It has still been under my eye.

Q.—Will you tell me what is involved by being under your eye? What do

you do regarding that money that you can speak of? A.—Well, nothing more than to check occasionally Mr. Grant's work in that respect.

Q.—Do I understand you to say that you do occasionally check his work? A.—Yes.

Q.—Tell me just what work is checked? What is involved in the work? According to the actual carrying out of the work in the office, what is involved? A.—The deposits themselves are kept in the office of Mr. Toller, in the vaults in the Finance Department. In our office we keep two large ledgers or books, in which are entered in detail all the securities held by the various companies. Every three months or thereabouts a list like this is prepared and sent out to different companies, and it is also published each week in the Canada Gazette.

Q.—That is a list of the insurance companies licensed to do business in Canada under the Insurance Act, with the name of the company and the chief agent in one column, the amount of deposit in the second column, and the description of insurance business for which the company is licensed in the third column? A.—Yes.

Q.—Then, without considering that just for the present, do you say, then, that it is any person's duty in the Department to check that? A.—It is no one's duty in the Department to check it. The item is checked. I have done it myself, and Mr. Grant more recently, periodically with the books in the Department of Mr. Toller, and also with returns received from the Bank of Montreal, London, England, where a portion of the securities are held.

Q.—Is there any rule about the regularity with which that is done? A.—There is no rule as to regularity. Whenever we think it expedient and have time to do it, it is done, at least once a year.

Q.—Just passing on from that, then, to get a general idea of the work, first of the other work, have you to do, then, what you have told us about now? A.—A large part of my work has been to assist the Superintendent of Insurance in his annual inspections for the insurance companies.

Q.—Will you say what portions?

The Chairman: How often did you say that statement was published in the Canada Gazette? A.—It is published weekly, but the changes are made usually once in three months.

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Q.—The same statement is published weekly for three months, and then altered? A.—And then alterations made.

Mr. Tilley: Q.—Do I understand that the statement is not altered the minute a change takes place in it? A.—No.

Q.—Can you tell me why it is not done? A.—The changes are made in the books of the office the moment any change is made in the deposit, but I think the Insurance Act provides that this statement shall only be issued quarterly in the Canada Gazette.

Q.—What section is that?

The Chairman: Section 18, I think it is. A.—Yes, section 18.

Mr. Tilley: Q.—That is the one under which the statement is published, and that provides that it shall be published quarterly? A.—Yes.

Q.—And you construed publishing quarterly to mean publishing it all the time during each quarter, every week, but changing it quarterly? A.—Yes.

Q.—But the moment a change is made in any deposit it is entered at once in your books? A.—Yes.

Q.—And changed quarterly in the Gazette? A.—Yes.

Q.—How often do changes takes place in those deposits? Is there much change or variation? A.—Very frequent.

Q.—The changes in the deposits are frequent changes; what do you mean by frequent? How often do they change? A.—We have a large amount of those securities in deposit. Those securities are maturing from time to time. As they mature they are replaced by others; that is one cause of the changes.

Mr. McCarthy: Will you distinguish between the Canadian and American companies?

Mr. Tilley: Q.—Does that constitute a change of amount only, or just a change in the class of security? A.—It may constitute a change in the class of security, and also may cause a change, a small change, perhaps, in the amount; that is, the amount may possibly be increased.

Q.—Does that list include Canadian companies who merely put up the deposit to entitle them to do business as well as foreign companies? A.—The list includes all kinds.

Q.—As to the securities put up by the foreign companies, you say those securities are subject to change quite frequently? A.—Quite frequently.

Q.—The securities that are put up by companies as a deposit to obtain a

license, do they change? A.—Whenever they mature.

Q.—Do they change frequently? A.—It depends upon the nature of the security. The amounts are small, and as a usual thing they give us bonds that run for a long period. In the case of the Canadian companies the changes are not made frequently.

Q.—In the case of the Canadian companies the changes are not made frequently, because the Canadian companies select to lodge with you securities that do not mature quickly? A.—They have a larger class of securities, usually, to select from, and a smaller amount to deposit. In the case of foreign companies, once a year or oftener they are called upon to make additional deposits as their liabilities in Canada increase. Of course it is in connection with these additional deposits that most of the entries are made in the books.

Q.—I think you commenced that statement by saying that it applied only to foreign companies? A.—Yes.

Q.—So that the foreign companies having to give security for all the policies they issue in Canada, must give security in a larger amount? A.—Yes.

Q.—And they have not the same range to select from, and probably there is more frequent change in deposits? A.—Yes.

Q.—Then the Department would be receiving new securities and giving out old ones, whether for foreign companies or for Canadian policies, in respect to their deposits from time to time, at any rate? A.—Yes.

Q.—And the change is made in the Gazette once a quarter, and between quarters, between these quarterly changes, the notice is kept inserted in the Gazette each week? A.—Yes.

Q.—I did not intend to go into that just in that way, but what I wanted to know is what else you have to do, and you say another branch of your work is assisting Mr. Fitzgerald in the inspections? A.—Yes.

Q.—What portion of your time is taken up with that branch of the work? A.—Well, I should say about from five to six months each year.

Q.—Five to six months each year, and can you say what months? A.—I usually take my inspection about the beginning of February in the case of a few companies which have their returns lodged with the Department before that date.

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Q.—That is, you usually get some returns before they are strictly due under the Act? A.—Yes.

Q.—And if you get a return in you commence inspection then, do you? A.—Yes.

Q.—Then, commencing about the middle of February, do you keep at that work continuously until you finish it? A.—It has usually been my custom to spend about three weeks. This year I took four weeks, with those yearly statements returned to the office, and I assist in getting out the preliminary report, the abstract. It is subject to correction afterwards.

Q.—The preliminary abstract is made out then, and that is a bringing together of all the returns of the companies that have been sent in? A.—Yes.

Q.—That is not the corrected return, but is subject to correction afterwards in your inspection? A.—Yes.

Q.—How long does that work take of your time? A.—About a week or two weeks.

Q.—And then with that hiatus, do you keep at the work of inspection continuously? A.—Continuously, with perhaps a few days interruption.

Q.—Until what season of the year? A.—Until about the 20th of June, about the end of June.

Q.—About the end of June your work is usually completed? A.—I cannot say completed, but we think the time has arrived then when the full report should be prepared and issued.

Q.—So that you think that by the end of June the time has arrived when a complete report should be made out? A.—Yes.

Q.—A sort of final report? A.—Yes.

Q.—Do you say that report is made out before you are through? How can it be? A.—When this final report—

Q.—The annual blue book? A.—Yes; is sent to the printer, there necessarily remains a few companies which neither Mr. Fitzgerald nor myself have had time to inspect.

Q.—Why would not some of those companies be dealt with by Mr. Grant, or some person else in the Department? A.—Well, it is a question that I am not prepared to answer.

Q.—You would not care to answer? A.—I am not prepared to answer.

Q.—Is that a custom of the office that has prevailed for some time, or is that

just some exceptional year? A.—I think that that has prevailed at least of late years, the volume of the work.

Q.—It has prevailed of late years; how many years back? A.—I think about five or six years back, perhaps longer.

Q.—I suppose you could, from your records in the office, tell us what companies were not inspected prior to the issue of the blue book in the different years that have gone by for the last ten or fifteen years? Can you do that? A.—We may be able to, but I am not sure.

Q.—You must have, have you not, some record showing the dates of inspection of every company in each year? A.—I usually make a note in the notebook I have with me when I make the examination. I usually fill in the date. I may be able to obtain the information from that.

Q.—Have you the notebooks here for the different years? A.—I have not.

Q.—For all the years? A.—No, I have not.

Q.—I do not know that it is worth while following that up till we get all the documents, but tell me last year what companies were not inspected at the time the blue book was issued? A.—There were two companies in Winnipeg.

Q.—What were their names? A.—The Great West Life and the Canadian Fire. The distance there being so great—

Q.—We are not concerned with the fire companies? A.—In the case of the Sun Life a partial visit only was made before the issue of the blue book.

Q.—A partial visit to the Sun Life was made before the issue of the blue book, and the balance of the inspection was completed after the blue book was issued? A.—Yes.

Q.—Were changes that were made or mistakes that were found on the first partial inspection carried into the blue book? A.—They were carried into the blue book.

Q.—And other mistakes afterwards? A.—Were not carried into the blue book.

Q.—The Sun Life is one of the largest companies in Canada, is it not? A.—Yes.

Q.—Tell me how it would come that a company would be partially inspected that way before the book was completed, and not fully inspected? A.—The main reason was that there were a few points in connection with the ex-

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amination that I wanted the assistance and advice of the superintendent on.

Q.—There were some points connected with the examination on which you wanted the advice of the superintendent? A.—Yes.

Q.—When were you making the inspection when those points developed? A.—I think it was about the 19th of June.

Q.—The blue book had not then been printed? A.—Had not then been printed.

Q.—And these points were serious enough points for you to delay the completion of the inspection until you could discuss them with the superintendent? A.—I did not say they were serious at all.

Q.—They were serious enough for that purpose? A.—Yes.

Q.—They were so serious that you did not want to deal with them without consultation with the superintendent? A.—Yes.

Q.—And the blue book was allowed to be printed without that matter being completed? A.—Yes.

Q.—When was the Sun Life inspection completed last year? A.—It was not completed until about the end of November.

Q.—And what was the nature of the question that you were considering? A.—It arose out of the examination of the account in the ledger dealing with profits, I think, on securities sold.

Q.—An examination of the ledger dealing with profits on securities sold? A.—Yes.

Q.—What was the point that arose? A.—I could best deal with that if I brought the memorandum.

Q.—Probably that is the more accurate way to get it? A.—Yes.

Q.—What I want with regard to that is that you shall give the names of all the companies that have not been inspected in time for the annual blue book for the last fifteen years, and the reason that the inspection was not completed, and I want to ascertain all the changes that were made in their returns after the inspection which never got into the blue book? A.—Yes.

Q.—That is something that you can get, can you? A.—I think so.

Q.—And you say the completion of that inspection of the Sun Life Company's books did not take place until November? A.—Not until November.

Q.—Of last year? A.—1905, yes.

Q.—I want you to get information as to the details when the different companies were inspected that were inspect-

ed after the issue of the blue book? A.—Yes.

Q.—Does it run as late as November many times? A.—I think it does, or October.

Q.—October or November. The annual inspections in your Department are not completed, you say, until practically the date the next annual statement should be filed; you come along in November, and there is only one month more to carry on the business of that year? A.—Yes.

Q.—And it is sometimes up to that month before the previous year's work is inspected; is that right? A.—Yes, that is right, in a few cases only.

Q.—Why should there be those few cases? A.—The only reason, as far as Winnipeg is concerned, is the distance.

Q.—It does not take you that long to get there? A.—No, but while I would be going there there are probably a dozen smaller offices that could be examined.

Q.—You so regarded it as your duty to stay where you could attend to the larger number, and leave the one-office to be inspected later? A.—Yes.

Q.—Has it never suggested itself to you or to the superintendent that Mr. Grant might inspect the Winnipeg office? A.—That is a matter for Mr. Fitzgerald himself.

Q.—Has it ever been discussed between you and Mr. Fitzgerald? A.—We have talked about it.

Q.—You have discussed sending Mr. Grant to close up the inspection of some of these companies? A.—Yes.

Q.—Why was it not done? A.—The fact is we had been too short-handed in the Department to spare much of Mr. Grant's time from the actuarial work, that has been increasing so rapidly of late years.

Q.—Tell me as to that, has the staff in the department changes in numbers in recent years? A.—There has been an addition of one now and again.

Q.—The staff is five now, as I understand it? A.—Yes. It is not much larger that it was three or four years ago.

Q.—It could not be very much larger because it is only five? A.—No.

Q.—Have you had any person in addition added to the staff in the last five or six years? A.—That information we can give you exactly. I can only speak from memory now. We had a recent addition coming on the first of this month, Mr. Watson. He took the place

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of a man who was with us a year ending on the 30th June, 1904. He dropped out of the department and went elsewhere. He was the junior clerk.

Q.—So that he was not an increase to your staff? A.—Not an increase, no.

Q.—Just look at it in this way: has the work of the department increased much in recent years, and if so, to what extent has it increased? A.—The work of the department has increased, I consider, very much, both in the volume of the policies to be valued, and also in the number of companies to be inspected.

Q.—In the number of companies to be inspected and in the policies to be valued, and has it increased in the length of time it takes to inspect companies—I mean individual companies? A.—Individual companies it has, but others it has not.

Q.—Can you fix any date from which you might say a substantial increase in the work of the department commenced? A.—During the last eight years.

Q.—Do you know what the staff was nine years ago? A.—I could not say off hand. If it has been increased, it cannot have been increased very much, not more than by one, I do not think.

Q.—And that person not a person who could take any responsibility? A.—No.

Q.—If it is increased at all, it has merely increased by some clerical help in the office? A.—Yes.

Q.—Not by an actuary or any person who could do any inspecting; that is right, is it not? A.—That is right.

Mr. Geary: Grant just came in five years ago.

Mr. Tilley: Q.—Did Mr. Grant succeed an actuary? A.—He succeeded Mr. Henderson, who is now assistant actuary of the Equitable Life.

Q.—So that Mr. Grant was not an addition to the actuarial help? A.—He was merely a student when he came in. That is, he had not started at his—

Q.—Actuarial work? A.—Actuarial education.

Q.—So that your answer that you gave is quite correct that there has been no additions in the last eight or nine years to the help in the department, such help as could take any responsibility? A.—Such help as could take any responsibility. We consider that Mr. Grant has reached that point at the present time where he can be of great assistance in the work.

Q.—Do you say that if Mr. Grant is put at that work now that he will be some person in addition to what you have had before? A.—Yes.

Q.—Previously there has been yourself and the superintendent? A.—Yes.

Q.—Now you say you feel that Mr. Grant has reached that position. What has been done about it? Has he done any inspecting at all, or is this something you are thinking of now? A.—He has already done a little this year.

Q.—Where at? A.—In previous years Mr. O'Reilly has occasionally examined one or two companies.

Q.—How long back has Mr. O'Reilly been examining? A.—He has not made a practice to do a great deal of examining. I think about five or six years ago he examined the Winnipeg companies—and perhaps longer ago than that—and more recently he examined some of the companies in Winnipeg, and has assisted Mr. Fitzgerald once or twice in the examination of securities in Montreal and elsewhere.

Q.—If he was able to examine the Great West Company six years ago, why has he not been doing some of that work, and get the work done? A.—Probably Mr. Fitzgerald could answer that better than I could.

Q.—I will take your answer at the present time? What is your answer? A. I can give no reason.

Q.—Has it never been discussed? A.—I think not.

Q.—Do you mean to say examinations of companies has just been delayed in that way, notwithstanding that the changes do not get into the blue book, without any discussion of it in the department? A.—Well, I can recollect no special discussion.

Q.—You can recollect no special discussion; you cannot say what has been said about that at all? A.—No.

Q.—Just allowed to drift that way, so far as you know? A.—So far as I know.

Q.—Other than that inspection work that you do and what you have told us about, is there any other work that you attend to, the actuarial supervision, the printing of the temporary report and the inspection work? Is there anything else that you do in the department? A. Well, of course, I acted for Mr. Fitzgerald in the general work of the department during his absence, and assisted him when he has been present.

Q.—When either you or Mr. Fitzgerald is away, is the other one always at the office? A.—Not always.

Q.—So sometimes you are away and Mr. Fitzgerald is away at the same time? A.—Sometimes, but not much.

Q.—What? A.—It does not occur very much.

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Q.—But sometimes? A.—Sometimes.

Q.—And during those times is Mr. Grant away too, sometimes? A.—I think not, either Mr. Grant or Mr. O'Reilly is always there.

Q.—Mr. O'Reilly is not an actuary, but he has been a long time in the department? A.—Yes.

Q.—And is able to do considerable work? A.—Yes, and has a fair knowledge of actuarial work.

Q.—He has a fair knowledge of actuarial work to help him? A.—Yes.

Q.—Gained from experience in the department? A.—Yes.

Q.—Have you now in a general way told us all your work? A.—I think in general terms I have expressed it all.

Q.—I was going to ask you what you do when you go to make an inspection; just tell me please, the course that you pursue in a general way. I suppose you take with you the actual returns they send in to the office, do you? A.—Yes, or copies of them. Usually the original returns.

Q.—You take the actual returns with you? A.—Yes.

Q.—Do you take any help with you from the office from the department to assist you? A.—Not usually, no.

Q.—It is not the rule, you mean? A.—It is not the rule.

Q.—You rely for your clerical help on the company that you are inspecting? A.—I do.

Q.—Then when you reach the office, how do you proceed? A.—I usually ask for the ledger and journal. I take the statement and check the items as far as I can from those books, in the meantime asking for and obtaining such other books as may be necessary. I first from these books go to work by myself and make up as nearly as I can from the books of the company what the different items of income and expenditure should be, and compare those with the items entered in the statement.

Q.—Do you start with the book or statement? A.—I start with the ledger; I usually take the accounts as they occur in the ledger, without any reference to how they occur in the statement. In that way I will be more apt not to miss or overlook any item in the books of the company.

Q.—Do I understand you take the ledger of the company and go through it page after page? A.—Yes.

Q.—Of every company that you inspect? A.—That is the Canadian companies.

Q.—That is your absolute right, is it?

A.—That is the absolute rule.

Q.—And from your computation in the ledger you make your computation show what you think should be carried into the statement? A.—Yes, and then when there is any discrepancy between the figures that I make out in my computation and what are entered in the statement, I call upon the officer who has charge of that particular item and find out whether he is wrong in making it up, or whether there is something that I have overlooked, and in that way I am either able to convince him he is wrong, or he is able to show me just how the item has been arrived at, and whether it is correctly entered.

Q.—To what extent do you make an investigation of the account itself in the ledger? You say that you take the different accounts through the ledger? A.—Yes.

Q.—Do you examine the account itself? A.—I glance my eye through the various entries in that account. I can usually tell if there is anything suspicious in it, or that I do not understand. It may not be suspicious looking, but that I do not understand. I then refer to the other books of the company from which that item has been entered.

Q.—Brought forward? A.—Brought forward, yes.

Q.—When you are investigating the ledger in that way, is any person representing the company with you at the time? A.—Not unless I ask to have him.

Q.—You make an absolutely independent examination? A.—Yes, sir.

Q.—An absolutely independent examination of the book, having the book presented to you, and no person else being concerned? A.—Yes, I prefer it that way at first till I pick out the weak points, and then I get whatever assistance I require to explain it.

Q.—Does the ledger give you all the information you want for your examination? A.—It gives me the preliminary information I want; at least, not all; the chief information.

Q.—Take the statement; take one of the forms of statement, and tell me just how you get the different items of it? A.—Is that a question?

Q.—Yes, what is the difference between the portions of the statements, one headed "Assets per ledger accounts" and "Other assets"? What is the object of separating them? A.—That I can best explain by reading: "The

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ledger assets include all the investments and loans made by the company for moneys derived from premiums, interest, capital, and other receipts, which have been reported through the income account. Any moneys due or accrued to the company which have not yet been reported in the income as received are non-ledger assets."

Q.—The difference between the two is one is a ledger asset and the other a non-ledger asset; is that what you mean? A.—That is the distinction in these accounts.

Q.—And a ledger asset would be then, shortly, something that has been in the hands of the company and gone through the company's books? A.—Yes, cash that has been received.

Q.—And a non-ledger asset would be an asset that has never yet appeared in the books before, like interest accrued due? A.—Interest accrued and premiums accrued and due.

Q.—Enhanced value of stocks, bonds or debentures? A.—The market value of bonds, stocks, debentures over the cost value.

Q.—That is, anything that would be written up in that way would be a non-ledger asset? A.—Yes.

Q.—Then you would get, as I understand you, the items for the second section, headed "Assets as per ledger accounts" from the ledger. You would get that from the ledger, would you, in going through it in that way? A.—They would appear in the ledger, but these non-ledger assets may also appear in the ledger.

Q.—Yes, but they represent items that have not yet been received or taken in hand? A.—Yes.

Q.—Not yet come into possession? A.—Yes.

Q.—Something that is due and has accrued due in the way of interest or enhanced value, or something of that nature that has never yet been reduced to possession; is that what you mean? A.—Yes.

Q.—What is the object of keeping the two portions separate? A.—The object is more for the convenience of the Inspector or of the Superintendent to trace and keep track of all the cash, income and interest and that like, that has been received. Facing page 5 of the report will be found what is called a synopsis of ledger accounts. This would be a balance sheet connecting the income and

expenditure accounts statement with what we call the ledger assets in the statement. If you start with the ledger assets at the beginning of the year, or at the end of the previous year from the last statement, add the income and deduct from it the cash expenditure, and you should have the amount of ledger assets in the possession of the company at the end of the year. This may be modified by the writing off of securities or the writing down of securities when losses upon investments have been actually made.

Q.—The first item I notice in the statement is the shareholders and stockholders in the company; do you check that? A.—Only the total amount that has been put in in cash by the stockholders, not what has been paid in by the individual stockholders.

Q.—Why do you stop there? A.—Well, we do not consider that the amount of stock held by each particular person is sufficient interest. The list is furnished to us; it has been sworn to. As long as these are not the total amount of cash that they have paid in it is not considered to be of so much interest to the department just from what particular person that money has been received.

Q.—You check merely the totals on account of capital stock? A.—Yes.

Q.—Does the Government regard the capital stock as a liability? A.—No.

Q.—You say that the Department does not concern itself to any great extent with the shareholders' list or the capital stock account; is that right? A.—Yes, not the individual holdings of stockholders as much as with the total amount held.

Q.—Then take this item: "Value of the real estate less incumbrances held by the company." Tell me how you would check that item? A.—That is an item that is usually in almost every company—I think I might say every company—looked after by Mr. Fitzgerald myself. I occasionally—in fact, always—check the total amount which should appear there in the statement, but the valuation of the various properties is a matter that is looked after more fully by Mr. Fitzgerald.

Q.—But don't you sometimes make an inspection of securities? A.—Yes.

Q.—Don't you sometimes do the whole examination for the company? A.—In a few cases.

Q.—And Mr. Fitzgerald never goes there at all? A.—In a number of cases.

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Q.—How do you do when you make an examination? What do you do? A.—In the case of the real estate?

Q.—Yes? A.—I get all the particulars regarding the real estate from the company's books. I make a report from them to Mr. Fitzgerald, and if he deems it necessary he obtains a valuation of that.

Q.—What you mean by that is that sometimes he has or on some occasions he has obtained an individual valuation? A.—Yes.

Q.—Do you always make the report to Mr. Fitzgerald as to real estate, or do you only do so when there is something special that you think should be returned? A.—Only when the item has been disturbed in some way by writing up or writing down.

Q.—If you find the value of the real estate to be the amount stated in the ledger for real estate, is that an end of it? A.—That is the end of it, unless the value stated in the ledger has been added to by fictitious or a paper amount—an amount written up.

Q.—If you find it is the amount that according to the book was paid, that is all the inquiry you make? A.—That is all the inquiry I make.

Q.—Do you ever make any inquiry as to improvements on the land or depreciation? A. No.

Q.—You never do? A.—Well, I would not say I never do. In the case of a building, if I am getting this information, I have got what has been expended during the year.

Q.—That is to say, where something appears in the account for building, then you find that out? A.—Yes.

Q.—And take an account of that? A.—Yes.

Q.—But supposing a company is not including in its statement anything in respect to such an item as that, how does that come to your attention? A.—Please state that again.

Q.—Is there anything you do or is there any way from your inspection that you can check whether the company is paying out anything with respect to real estate for improvements or otherwise, or not? A.—Most certainly.

Q.—That would come in the expenditures, would it? A.—That would come in the expenditure.

Q.—Do you mean to say you go through the whole of the books of the company to ascertain what their expenditures are, and do not simply take their statement of the expenditures,

checking it merely? A.—We know in going through the books, we find out how much has been expended on every item in those different accounts.

Q.—And in that way if you find anything that is expended on real estate, then you say that should be added to the value of the real estate as an improvement? A.—It is either done that way—it may be written off the value of the real estate.

Q.—What do you mean by "May be written off the value of the real estate"? Do you mean it may be charged up to expense? A.—No.

Q.—Well, what then? Supposing you find in the books a large expenditure in respect to building on land, does that go into the real estate account, and, if so, how? A.—Would you mind stating that again?

Q.—Supposing that a company is paying out money in respect of a building? A.—Yes.

Q.—Either erecting a building or improvements to a building? A.—Yes.

Q.—From your inspection, is it necessary that they should appear in the real estate account or not? A.—It would appear in the real estate, yes.

Q.—Would it of necessity appear in the real estate account? A.—I think so. It must be shown somewhere in the statement.

Q.—Supposing it is shown just as an expenditure? A.—Oh, well, it may be shown as an expenditure.

Q.—Then supposing you find an expenditure with respect to the real estate in the way of an improvement on the real estate, would you not have regard to that in estimating the value of the real estate? A.—Well, a company may expend a large amount—that is, comparatively large amount—on improvements on the real estate, but consider that as an expenditure which they would carry into their miscellaneous expense of the company.

Q.—And not added to the value of the real estate? A.—And not added to the value of the real estate.

Q.—What I want to know is, do you let the company do as it pleases about that? A.—Usually, if the company—

Q.—Usually or always; do you always let them do as they please about that? A.—Well, I would not say always.

Q.—Have you ever yet— A.—We do not interfere with the company in its dealings in that way. If the company expends a certain amount on its real estate, and considers that that amount is

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merely for the purpose of keeping the real estate up to its usual standard value, then that amount may be treated in one or two ways; it may be put in the expenditure as amounts expended on the improvement of real estate, or it may be deducted from the rents obtained from the renting of that property.

Q.—It may be deducted from the rentals, or it may be put in as an improvement to the real estate? A.—Yes.

Q.—But what I want to know is, what do you do about it, what authority do you exercise about such a matter? A.—Well, I do not know as we have any authority in the matter at all.

Q.—Do you ask for information about such items? A.—Whenever it is necessary.

Q.—I am asking you, do you? Have you ever asked for information about such items? A.—I have.

Q.—With respect to what? Moneys paid out for building? A.—Moneys paid out for building. That information has been asked for during the last year or more in the case of a building recently bought, or which appeared in the statement in the last two years by the National Life in Toronto.

Q.—What was the occasion for that? A.—The occasion for that, they bought a building, and had to lay out a large amount of money for improvements upon that building. The building was considered by the company worth a great deal more than they paid for it, and it was written up to a certain extent by an amount over and above what they had paid and what they had expended.

Q.—Supposing the result had been the other way? Supposing the expenditure had not been added to the value of the property at all, would you have the concerned yourself about that—supposing the value of the building had been left at the old value? A.—No.

Q.—Do I gather that all you look to see is that the land is worth the amount that is put there; whether or not it is worth a good deal more you do not concern yourself with? A.—Yes.

Q.—You see that the amount there is not too high? A.—Yes.

Q.—But you do not see whether it may be too low or not? A.—No.

Q.—You do not profess then to make this statement an exact statement of the assets—not the exact value of the assets? A.—Not the exact value of the assets.

Q.—But is what you might say the

minimum value of the assets? A.—That is it.

Q.—It is worth that at least? A.—Worth that at least.

Q.—And may be worth more? Is that right? A.—Yes.

Q.—To any amount more? A.—Well, if it is worth to any amount more the company in that case usually writes it up.

Q.—But as far as your inspection is concerned, to any amount more; is that right? A.—It may be worth to any amount more. I do not think there has been a case in which the superintendent has taken upon himself to write up the value of a piece of real estate to an amount above what has been returned by the company.

Q.—I am not asking whether he has actually written up an amount; but whether he ever makes enquiry about that at all; that is my point? A.—Well, as I say, those matters have been dealt with almost exclusively by Mr. Fitzgerald.

Q.—At any rate, you have not done so? A.—And what I have done is merely to obtain information to put before him in respect to those matters.

Q.—When you get information to put before him, are your reports made to him written or verbal? A.—Often in writing, sometimes verbal.

Q.—You would have some written reports from yourself to Mr. Fitzgerald regarding the result of your inspections from time to time. Would that be one report made after all your inspection, or would it be made—A.—No, it would be made during the inspection usually from time to time.

Q.—Then the second item, "Amounts secured by loans on real estate," I suppose you just take the ledgers for that and see the items there, and the amount loaned, and is interest accrued due included in that item? A.—No, that is merely supposed to include the face of the loan. The interest accrued and due will come under item 16.

Q.—That would be a non-ledger asset? A.—Yes.

Q.—What do you do in your inspection in the way of supervising the amount due on loans and mortgages on real estate? Do you get any information as to the value of the property? A.—Only what information has been given by the valuations; each loan has accompanying it usually one or more valuations as to the value of the property.

Q.—And do you insist on that? A.—Yes.

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Q.—On seeing the valuation? A.—Yes.

Q.—And taking the valuation, you ascertain whether you think the amount loaned is a fair loan upon the property? A.—Yes.

Q.—Have you come to cases where you thought it was too much loaned on the property? A.—I have not myself come across any such cases.

Q.—There are such cases? A.—Mr. Fitzgerald, I have no doubt, has found them, as he has gone into that matter more extensively than I have.

Q.—You have not, though, at any time written down that item because you thought the loan was probably too much for the real estate? A.—Yes.

Q.—Then, how do you proceed in the case of loans to policyholders on the company's policies? A.—That is an item which, for the most part, we have to content ourselves by finding out the actual amount that the company had advanced on these loans.

Q.—The total amount? A.—Yes.

Q.—You take the total amount for it? A.—Occasionally we examine a few of these loans. In the case of a company commencing to loan for the first time I have examined the whole of the loans the first year, more for the purpose of seeing that they were returning to us correctly, that they were not loaning more than the surrender value or the reserve value upon their policies.

Q.—And to see that the company was starting right? A.—To see the company was starting right; after that we have to content ourselves with examining a few loans.

Q.—That would be by reason of the number of the loans? A.—By reason of the number of the transactions.

Q.—How many loans might a larger company have of that nature? A.—I would imagine some of them would run up into the thousands.

Q.—How many thousand? A.—Well, I could only estimate that.

Q.—2,000 or 3,000 or 5,000, or 7,000 or 10,000? A.—I could give no figures—no exact figures. Here is one company, for instance, has \$550,000 loaned. The average loan, I would suppose, would be, about \$200; that would give in the neighborhood of 3,000 loans for that company.

Q.—Am I to gather from your statement that you take the total from the books of the company and are you satisfied with that, or do you inspect any of those loans? A.—We inspect some of them.

Q.—Do you always inspect some of them? A.—Not always.

Q.—Sometimes that item is just carried forward into the statement by total and is not verified at all? A.—That is it.

Q.—Depending, you say, on the company, and possibly its past records on such loans? A.—Yes. It is an item in which errors are not likely to occur.

Q.—Why not? A.—When a loan is made a careful actuarial calculation is made as to the amount which might safely be loaned upon the policy. The loans are usually well within the amount. In other cases the policy will contain a provision whereby, after the payment of three or more premiums, a loan may be made, and states the amount of the loan, which cannot be exceeded. Those estimates of the loan which can be made are made by very careful calculations, and are always below the reserve value which is carried into the liabilities in respect of that policy.

Q.—For that reason you treat that as being an item that does not need much inspection? A.—That we cannot afford with our limited staff to take the time to make full inspection, and we consider for that reason that it is not necessary to go into it any more carefully than I have indicated.

Mr. McCarthy: Has he ever complained, or asked for an increase of staff by reason of that?

Mr. Tilley: Q.—Mr. McCarthy wants to know whether you ever asked for an increase of staff? A.—I have very often asked for an increase of assistants.

Mr. McCarthy: In that particular, that you had not enough staff to do the work, and asked for clerical assistants to help you to do it?

Mr. Tilley: Q.—Did you ever ask for clerical assistants to do that sort of work? A.—Not to do that particular sort of work.

Q.—Did you ask for clerical assistants to do any work? A.—Yes.

Q.—And has it been given to you? A.—I do not think it has been refused, but it has been delayed so long, and it has come so slowly, that the work of the office has outdistanced the help that has come along.

Q.—By the time the help has arrived the work has increased in greater proportion? A.—Yes.

Q.—So that you are always behind with the help? A.—That is it.

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Q.—You are referring now to help in the Department? A.—Yes.

Q.—And is there any help being supplied you now? Did you mention some person that was being added? Oh, that was in lieu of a person that was leaving? A.—Yes. About six months ago we asked for two additional hands. We have had one given us already.

Q.—You got fifty per cent. of the request? A.—Yes. The other no doubt will be forthcoming; that is, we hope so; we live in hopes of that.

Q.—What additional staff would you require to make a thorough inspection of such items as loans on policies? A.—Well, I should think, taking the life companies alone, that I would need two trained assistants.

Q.—Just for that item? A.—For that item and others.

Q.—Of a similar nature? A.—Yes

The Chairman: For life companies generally?

Mr. Tilley: For the life companies only? A.—Yes, to be supplemented from time to time if we found they were not able to keep up with the work.

Q.—That is your present idea? A.—Yes.

Q.—That is probably something that Mr. Fitzgerald could say more about, but would that staff be sufficient to make complete inspections of the transactions of a company in the year? A.—Not at all

Q.—If you had to make a complete inspection of the transactions of the company throughout the year, what staff might that require? A.—Well, it is hard to say what you mean by complete; to make a complete inspection would mean an audit of all the items which go into the books of the company.

Q.—I do not know that I was referring to that so much as to see as to investments, whether they are authorized or unauthorized, and work of that nature? A.—That is work, of course, that would not require as many additional assistants, merely looking into the investments and the authority.

Q.—Would the staff you have spoken of, the increase of two, be sufficient for that purpose? A.—I should think so.

Q.—That staff might be sufficient, you think, to deal with and check over all investments of the year? A.—Yes.

Q.—But then if you had to make the audit of the books, what staff would that require? A.—That would depend

upon the extent to which the audit was to be—

Q.—I mean such an audit as would enable a person to certify to the correctness of the statement as correctly showing the condition of the company?

A.—At present we rely to a large extent upon the auditors appointed by the company. We examine their work, and we expect the auditors to look into every item of expenditure and see that there is a proper voucher for the payment of that, and to see that the company has given authority for the payment of that at the time, and also, as far as they are able to check the receipts of the company. The work of our inspection is sufficient to look after without going into it—without duplicating that work. Our work is supposed to start where the work of the auditor leaves off.

Q.—I beg pardon? A.—Our work in a way will start where the work of the auditor had discontinued.

Q.—Then do I understand you to mean that you start with the assumption that the auditors have correctly shown by their books all the transactions of the year, and that everything is justified and proper with them? A.—To the extent to which the auditors go.

Q.—Then you start from that work of the auditor to see that the company has assets to answer its liabilities? A.—Yes.

Q.—Assuming that the work of the auditor has been properly done? A.—Yes.

Q.—Are these auditors you refer to auditors appointed by the companies? A.—By companies.

Q.—Are there auditors appointed by policyholders separate from companies? A.—Well, I cannot answer that question. I am not aware that the policyholders appoint an auditor.

Q.—I beg pardon? A.—I am not aware that the policyholders appoint an auditor. They may in some cases.

Mr. Langmuir: I suppose you mean that the auditors in a stock company are appointed by the shareholders and not by the company?

Mr. Tilley: Q.—Are there any companies where certain auditors are appointed to represent the policyholders? A.—I do not recollect any case; there may be.

Q.—When you say you are supposed to start where the auditor leaves off, what work do you do that the auditor does not do? A.—

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The auditor does not usually check any item of the liabilities, except perhaps some items of endowment and unpaid accounts; it will be the unpaid death claims; the reserves.

Q.—Why would an auditor check that? A.—Which? The reserves?

Q.—The liabilities? A.—I said there were some items in the liabilities—

Q.—I thought you said the liabilities. What items are you referring to that the auditor would not check? A.—The unpaid death claims.

Q.—He could not check that? A.—I do not think they check that.

Q.—The outstanding liabilities? A.—Or the insurance reserve.

Q.—The insurance reserve that the company is required to hold? A.—Yes.

Q.—Do I understand you regard the duty of your Department under the Act substantially to be that having regard to the assets and liabilities as would be shown by the auditor's statement, to include by that the other liabilities, like reserve and unpaid death claims, and to see then that the company is still solvent, having assets to answer all its liabilities? A.—I have lost the thread of your question.

Q.—Probably that is my fault. Do I understand you to conceive the work of your Department to consist in commencing with the auditor's work, where they leave off, and then incorporate the unpaid death claims, the reserve fund, and those outstanding liabilities of that nature, and then see that the company has assets to answer its liabilities? A.—I do not go so far as that. We do not rely upon the auditor's statement, but we check from the books of the company all the various items of income and expenditure; they are made up independently, and I regard the auditor's work as referring more particularly to the correctness of a certain expenditure, that it has been properly authorized by the company, and that the proper voucher for its payment has been made.

Q.—That no unauthorized payment has been made? A.—Yes.

Q.—That none of the assets of the company have been wrongly parted with? A.—Yes.

Q.—That you refer to as the auditor's work, to see that that is the case? A.—Yes.

Q.—To check all such payments? A.—To check all such minor items.

Q.—To require the authority and the voucher? A.—Yes.

Q.—You say you do not regard that as your work at all? A.—No.

Q.—And you take the books of the company as correctly showing the proper payments and proper assets, and you start with that as the foundation of your work? A.—Yes, and during the progress of that work we may occasionally find that there has been some error made.

Q.—Error of what nature? A.—I have not in mind any particular nature. There are errors discovered of all kinds.

Q.—Let us know what sort of errors you are referring to? What sort of errors do you find? I am not asking for any particular error, because we will get those later, but I want to know the general character of the errors or mistakes that you discovered, what is ascertained by your work? A.—There are errors in displacement of items in the statement.

Q.—That is including an item under a wrong schedule or heading? A.—An item under a wrong heading. The man who compiled the statement may have had a wrong understanding as to what should have been included. He may have entered in the income premiums that are in the hands of policyholders or agents and which have never been received in cash.

Q.—He may treat those as being assets received by the company? A.—Yes.

Q.—And in your way of treating them they are not treated so until actually received by the company from the agent? A.—Yes, and the same with respect to interest; the interest accrued sometimes has been entered instead of the actual receipts for interest.

Q.—Interest due, but unpaid, has been treated as interest paid. Always by mistake, you say? A.—It has usually been by mistake; that is by a misunderstanding, an inexperienced party that has made up a statement.

Q.—What other nature of mistakes do you find? A.—I suppose in going through the statements as a whole there would be very few items in which there has not been a clerical error or an error of judgment in some way which would not be found.

Q.—Then do I understand that in almost all statements you find some mistakes or errors? A.—In almost all statements there are a few errors.

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Q.—How are those shown in your office now? A.—We usually make the change in red ink in the statement which comes in.

Q.—Those original statements are all on file in the Department yet? A.—Yes.

Q.—And on every statement is shown in red ink any change you have made or any mistakes you have corrected? A.—Yes. In the statement I have before me, for instance, it was found necessary to increase the amount of outstanding death claims.

Q.—I beg pardon? A.—In the statement I have just picked out from the pile, it was found necessary to increase the amount of unpaid death claims.

Q.—How may that arise? That would not be carelessness, would it? A.—Well, it arises in various ways. The company may possibly have not received notice of that before the statement was made up, or before it was sent in to the Department. Notice may have been received after the close of the year, and the person who made up the statement may have been of the opinion that as the company had not received notice of that death claim before the end of the year, then it would not be necessary for them to enter into the statement the amount of that death claim.

Q.—Do I understand you to say, then, that if a death claim occurs before the end of the year and not reported, and the company has no knowledge of it, the statement made up might truly eliminate that claim so far as the knowledge of the company goes? A.—Yes.

Q.—But that when you would inspect the companies, if you found any such case, although there had been no notice sent to the company at the time the statement was made, you would change the statement and have that included? A.—Yes.

Q.—Then it would follow that some of these changes that you make in the returns by companies would alter the totals of the different items? A.—Alter the totals of the different items.

Q.—And as to any company not inspected before the blue book was printed, would make the totals appearing in the blue book inaccurate? A.—Yes.

Q.—And the comparison as between different companies might not be entirely accurate, although, I suppose, very seldom you find an item that amounts to a great deal as a total? A.—There

has been no change found in those companies that would practically alter the statement as published in the blue book.

Q.—At any rate, all those changes are shown in the red ink. There are no changes made except what are shown in the statements in red ink? A.—None that I recollect of.

Q.—You know of none? A.—No.

Q.—When you return to the department do you in any way notify the company of the inaccuracies in the statements you received? A.—The company, before I leave the office, the company has a duplicate or triplicate copy of this report which they keep in their office; before I leave the office the changes are usually made by the company in their own copy.

Q.—By the clerk, or whoever is in touch with you? A.—Yes.

Q.—But there is nothing of record between the department and the company whereby after the inspection you report to the company "At our inspection of such and such an occasion we found such and such mistakes in your returns?" A.—No.

Q.—There is nothing of the kind? A.—No. Another check, when this blue book is being printed, passing through the printer's hands, it has been the custom to send a revise of the statement after it is set up in type to the company for them to look over, and to make any objection if they wished to any of the changes that have been made, or to point out any errors which may be in the statement.

Q.—That is you send to each company a proof of what will appear in the blue book, to give each company an opportunity to criticise its own report as it is being printed there? A.—Yes, each Canadian company.

Q.—You send each Canadian company a copy merely of its own return as it is going to be printed? A.—A copy of its own return as corrected.

Q.—But not of all the companies? A.—No.

Q.—Each company does not get a copy of the other company's return? A.—No.

Q.—Take the item, stocks, bonds and other collaterals, how do you check that item? A.—I usually obtain from the company the ledgers in which the account value of that item is recorded.

Q.—The account value; that is the ledger that shows the different stocks, bonds and debentures carried? A.—Yes.

Mr. Langmuir: Q.—That is what they were bought at? A.—Yes, including any writing up or writing down that may have been subsequently made.

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Mr. Tilley: Q.—Do you check the value placed on them? A.—In some cases.

Q.—Why not all? A.—In a great many securities such as municipal debentures, particularly, there is no quotation on any stock markets. A great many of the debentures are not for sale on the markets. In that way it is not possible to get the exact market value. We cannot say that they have any particular market value.

Q.—Then in case of such securities you always take the value as placed on these securities? A.—Well, I would not say always. It occasionally happens that an item like that would have to be written down. That is, the company has placed a larger value—

Q.—Than circumstances warrant? A.—Than circumstances warrant.

Q.—Supposing you come to a statement sent in by a company made out on the 31st December, at the end of a year, and you do not inspect the office till away on in November or October? A.—Yes.

Q.—Do you criticize the value put on that item by the subsequent market from the time the statement was made with the knowledge you have in October or November, as to what it is then listed at or quoted at? A.—We do not make any change in the market value. What we try to arrive at is the market value as it stood on the 1st of January and not in November.

Q.—So that in the case of any particular stock, if the price has gone down during the interval between the date of the report and the date of your inspection, that is not shown as the result of your inspection? A.—Not shown in the statement.

Q.—No change made? A.—No.

Q.—That must be a circumstance that happens frequently? A.—It happens frequently, but I do not think it would be possible to show in the company's statement any depreciation which may have occurred between the 1st of January and the date on which the blue book is issued.

Q.—It would not be possible? A.—No.

Q.—At any rate, there is no comment from you, or nothing done by you when you find that the security taken there at a certain value on the 31st December has shrunk in value considerably after that date? A.—No.

Q.—Do you check over the stocks, bonds and debentures and say that they are there? A.—I do in a few companies. Mr. Fitzgerald does in the others.

Q.—Do you do that for any particular companies? A.—Not for any particular companies. Sometimes Mr. Fitzgerald will count them and some years I will count them. Where there are only a few debentures I usually finish the whole thing while I am at it.

Q.—Where there are a few you finish it? A.—Yes, and where there is any considerable amount Mr. Fitzgerald does.

Q.—How do you proceed in checking it? Tell me the way you do it? A.—Are you referring to the account values now or the actual securities?

Q.—The actual securities? A.—Well, that is merely counting the debentures that happen to be in the company's office or in the loan company's office.

Q.—Do you check them with the ledger? A.—With the ledger, yes.

Q.—And does the ledger in the case of the majority of the companies show the source from which the bond or security came? A.—I think in the majority of cases the ledger will show the source.

Q.—In some cases does the ledger not show that? A.—I have no recollection at present. That is we have not been accustomed to examine critically the source from which the debentures come.

Q.—You either examine, or you do not examine. You either do it so that you can say "that is right" or "that is not right?" A.—Yes, but that is not one of the points which comes under our examination.

Q.—And you say you do not usually or you do not critically do it; I suppose a fair statement is that you do not do it at all? A.—I do not do it at all. What I meant to say was that I cannot help seeing when I am examining the ledger items which do not concern me.

Q.—If you see them that way you do not concern yourself about it? A.—No, sir.

Q.—You may see it? A.—Yes.

Q.—You do not examine it, but just pass along? A.—Yes.

Q.—Have you given to the companies directions as to the method in which the books shall be kept in regard to such matters? A.—Not in regard—well, I would not say I have not given directions, but not as to the particular form of books.

Q.—Tell me the sort of direction you have given, and then we will understand better what you have not given? What have you told them to do—any company, by way of illustration? A.—Well, the only recollection I have in regard to a stock ledger was telling the company that they should procure a ledger in which all their bonds and

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stocks and that like should be entered, leaving the details to their own particular company. I have not pretended to give them any particular instructions as to how they should—

Q.—You have instructed companies to keep stock ledgers? A.—Yes

Q.—And bond debenture ledgers—you have done that? A.—I believe so.

Q.—Do you mean to say there were companies carrying securities such as that that had no ledgers to show it? A.—Well, this would be in the case of young companies where they had had only a few stocks, and where they were beginning to have them increase rapidly.

Q.—That does not apply, you are quite sure, to any company that was carrying stocks and debentures to any extent? A.—No.

Q.—What do you do in the way of checking these bonds and debentures over? Do you first run them over to see if the totals agree? A.—The totals of what?

Q.—The totals of a certain lot of bonds and debentures taken as security with the number that is in the ledger? A.—Well, the actual debentures themselves are counted, and the total noted; take for example a list here in the case of this company; the debentures have not been counted—

Q.—You are now referring to some particular return? A.—Yes. When the debenture is counted, this is the line for par value; they would be noted here: when the ledger accounts are checked, these are the ledger accounts. These are the check marks referring to those accounts.

Q.—When you count the securities you check them on the par value column? A.—Yes.

Q.—And when you have that checked you say they must be counted? A.—Yes. These are the ledger values.

Q.—Then the second column, marked "market values"—what does that indicate to you? A.—That indicates that these have not been checked.

Q.—Is that a return for the current year, the one just received? A.—Yes

Q.—Is it the return of a company that is partially inspected or completely inspected? A.—I think this is a return completely inspected; that is, as far as I am concerned.

Q.—What do you mean by that now? You have done your inspecting of that company? A.—Yes.

Q.—And has any person yet to do some work connected with it? A.—Not unless Mr. Fitzgerald finds it necessary to do something.

Q.—How can he find it necessary to do something? A.—For the reason that I have not checked the market values of those securities.

Q.—Is that the only thing you have not done in connection with that return? A.—That is the only thing that I have not done that I consider it is necessary for me to do.

Q.—Do you treat that return as checked and verified? A.—Yes.

Mr. Langmuir: Q.—Would it appear in that shape in the blue book for 1905? Would it appear in the shape in which you have it before you? A.—It would appear in this shape in the blue book for 1905.

Q.—Then that would set out that the market value was given by the company, but not checked by you? A.—Yes.

Mr. Tilley: The blue book would indicate that.

Mr. Langmuir: It indicates the market value, and where is that got from?

Mr. Tilley: From that return.

Mr. Langmuir: And it has not been checked?

Mr. Tilley: Yes.

Mr. Langmuir: The proper assumption would be that it had been checked if it appeared in the blue book?

Mr. Tilley: Yes. Q.—That is right.

Q.—Unless this discussion appeared here now, would that return have been checked any further than it is now? A.—It may or may not.

Q.—How? Just depending upon whether Mr. Fitzgerald happened to run across that fact? A.—I think Mr. Fitzgerald made a comment on the checking of the market value, that we had to leave that to a large extent to the sworn statements of the company, and in a great many cases we find—

Mr. McCarthy: Mr. Blackadar should not be giving evidence of what Mr. Fitzgerald does or does not do. We have not been allowed to ask Mr. Fitzgerald questions about it.

Mr. Tilley: Q.—Are you speaking now with reference to something Mr. Fitzgerald has told you, some instruction he has given you? A.—No, not at all.

Q.—It is something that you cannot say of your own knowledge at all? A.—Something I cannot say of my own knowledge.

Q.—Why did you leave that column unchecked; that is what we want to

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know—the second column showing the market value of those securities? A.—It is simply because I was unable to check it.

Q.—You had not sufficient information to check it, or had not time to check it? A.—I had not sufficient information, and also had not the time.

Q.—Which was the thing that moved you, the lack of time or the lack of knowledge? A.—Both considerations; there was a lack of knowledge. Take, for instance, some of these securities; village of Tara, city of Edmonton, town of Bothwell, village of Conden, city of Winnipeg, town of Meaford, town of Strathroy, town of Perth, town of Collingwood, city of Kingston—how am I to tell the accurate value of these securities?

Mr. McCarthy: Q.—Would you mind telling us if you consider the question of how the market price compares with the cost price in the return? A.—Yes, that is examined.

Q.—Is there any difference between the alleged market price and the cost price? A.—In a few cases.

Q.—In those municipal bonds? A.—Yes.

Mr. Tilley: Q.—What is the difference between the two in those cases? Is the market value higher or lower? A.—I think in most cases they are exactly the same.

Mr. Langmuir: I should, of course, assume that the cost price of these bonds, as shown in the register, and as sworn to, might be accepted and had to be accepted, but I cannot assume that the market value should not be changed, because there there might be a great difference between the views of Mr. Fitzgerald and the company.

Mr. Hellmuth: Looking over the book value of all the towns in the statement of the Canada Life, at pages 151 and 152, I find the book value to be \$1,618,000, leaving out the odd dollars, and the total market value \$2,642,000, only a difference of \$24,000 in over a million and a half; so that it is trifling in the case of towns.

Mr. Langmuir: That is municipal debentures?

Mr. Hellmuth: Yes.

Mr. McCarthy: If he takes the market price with that very small difference, he would, of course, have to deduct the cost price. If he checks it and puts it as a security at the market value, and the cost price is the same as the market value, then he has practically the security at that figure and takes

it at that price. So that we are really chasing ourselves round a circle.

Mr. Tilley: Q.—Take 150 shares of the Bank of Ottawa, that is a stock that has a market value. Did you check that? A.—I have not as yet.

Q.—120 shares Ontario Bank?

Mr. McCarthy: Are those the ones he has not had time to do?

Witness: I had not time for the examination.

Mr. Hellmuth: The total of all the stocks and bonds owned by the Canada Life is shown to be \$17,249,000, leaving out the hundreds. The total market value of all that is shown to be \$17,642,000, or a difference only of \$400,000 on that large mass of \$17,000,000.

Mr. Tilley: That was something that just arose on looking at the statement.

Q.—Now, do you say that the ledger account of these securities does or does not show the numbers of the different certificates? A.—Of the stock certificates?

Q.—Yes? A.—As far as I recollect, the numbers are given.

Q.—That is to say, the stock ledger or the bond or debenture ledger would show a certain number of bonds or debentures, from number so and so to number so and so in a certain group. Is that the way the ledger reads? A.—I cannot speak as to every case. I do not recollect any case where the numbers are not given.

Q.—When you are checking them, do you check them with regard to that? A.—With regard to the number entered on the stock ledger?

Q.—Yes? A.—No.

Q.—To see that you are checking the particular ones that are mentioned there, otherwise how do you keep track of them? How do you know what you have checked or not checked? Do you initial the certificates in any way? A.—No.

Mr. Hellmuth: Might I suggest that the witness might produce a statement, like that of the Canada Life, say this last year, and let us see how the statement is prepared with regard to that, and see if the numbers are not all there and checked; then the long way will be made short.

Mr. Tilley: That would be as to the Canada Life, but I want to know the method of inspection. I want to know about all the companies.

Q.—In recording simply the information one company gives you, do you,

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when you are checking them, see that the numbers of the certificates are given or when they are not given? Do you initial them in any way to show you are checking that particular stock or bond or debenture once and for all? A.—Those securities are counted once a year, at the time of the inspection. They are checked off in this statement.

Q.—When you come to a certain item of some bonds or debentures, then certain bonds or debentures are brought to you? A.—Yes.

Q.—By some clerk in the company? A.—Yes.

Q.—And then you take a pencil and just mark that item? A.—Yes.

Q.—Do you in any way verify by the number of those bonds or debentures, or by any marks you put upon them, that these are the bonds or debentures that have been produced to you once and that you have counted already in checking that statement? A.—In the case of debentures it is not customary to take down the numbers. In some cases we do, but not always. We take care that a debenture that is once counted cannot be produced to us again.

Q.—How do you do that? A.—That is very easily done. Debentures of any particular municipality are all brought out at the same time and counted.

Q.—So that if you have a certain number of debentures of a certain municipality, they are brought to you at one time? A.—Yes.

Q.—And you check them all at once? A.—Yes.

Q.—Is that the rule you adopt in order to avoid any danger? A.—That is the rule I have adopted in order to avoid any danger of duplication.

Q.—If there is any information given as to numbers and so on on the statement of any particular company, you pay no attention to it anyway? A.—No.

Q.—So that it is not recorded by you in that way? A.—No.

Q.—You did not compare the bonds and debentures produced to you and check them with the numbers that are specified in the ledger of the company as being the numbers of those bonds and debentures? A.—No, in a few cases I have counted the numbers that have been given in the statement that is returned to the office.

Q.—If in their ledger accounts they show the numbers of the securities, you do not check that in any way by the production of the security? A.—No.

Q.—There is nothing to identify the security that is produced to you with

the security mentioned on that particular page of the ledger in your statement of inspection? A.—No.

Q.—What care do you exercise about the stock the company is supposed to own? Do you take the production of the certificate for so many shares or not? A.—Take the production of the certificate that the company—

Q.—You take a certificate for a certain number of shares being evidence of the company owning that number of shares? A.—Those certificates are usually in different forms, according to the kind of stock owned. In many cases we have the certificate signed by the secretary or transfer officer of the particular company certifying that such and such a life company owned on the 1st of January so much stock.

Q.—Is that what you obtain— A.—In every case the company produces the scrip certificate, whatever it is, that has been issued by the company; it depends on the nature and kind of stock.

Q.—Do you examine to see what kind of stock it is? A.—Yes.

Q.—And when it is stock, that the certificate is just evidence of the holding of stock, you require that certificate to show that on a certain date the company held a certain number of shares? A.—Yes.

Q.—And what date do you require to be put there? A.—Usually the date the 1st of January.

Mr. Langmuir : Q.—But not always? A.—Always on the 1st January.

Q.—You said usually. Don't you always ask, as all auditors do of the companies, to get the certificate of these various companies that such and such stock stands in the name of such and such an insurance company as of the 31st December? Don't you do that? A.—Yes.

Q.—That is correct? A.—Yes.

Mr. Tilley : Q.—Is it the 31st December or 1st of January? A.—Either.

Q.—You require it on the 1st of January? A.—Yes.

Q.—Then I notice there is an item in the form you send out, under the heading of "Other assets," number 15, called "Market value of stocks, bonds, debentures, overvalue in account." That item is not authorized by the schedule in the Act, or it is not specially mentioned? A.—It is not specially mentioned. The Act requires par value and the market value to be given; the account value is put in, the statements that have been

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printed more recently than the amendment to the Act.

Mr. Geary : The market value on that statement will be checked before it is put in the blue book ?

Mr. Tilley : Q.—Mr. Geary would like to know, referring to the item of market value of stocks not checked there, whether that particular return will be checked before it goes into the blue book. I think you said it would depend on whether Mr. Fitzgerald thought it necessary; it might or might not be done ? A.—It might or might not be done.

Q.—Sometimes they are put in without that column being checked ? A.—Yes.

Q.—You take the sworn statement for that ? A.—Yes. I might say in going through these that if there is any market value that appears to be too large over the cost value, that case then is looked into, and cases have arisen where we have cut down the market value as returned by the company.

Q.—So long as they are pretty near the same you do not bother much with it ? A.—No.

Mr. Langmuir : Of course municipal debentures are not fluctuating; they are stationary.

Mr. Tilley : Q.—If there is too much of a margin you examine into it to find the reason ? A.—Yes.

Q.—The account that is headed "Income"—what does that include? Section 4, income during the year, does that include amount paid on capital stock, if any has been paid in? A.—Yes; item 10, received for calls on capital.

Q.—I notice there is no item of a similar nature in the schedule to the Act? I suppose under the Act it would come under "All other item in detail"? A.—Yes.

The Chairman : What section are you referring to ?

Mr. Tilley : The section at the end.

Q.—So that the income that is set out there includes all money received, does it, by the company, except returned loans ? A.—Yes.

Q.—It does not include moneys received by way of repayment of loans? A.—No, not at all.

Q.—Or the sale price of securities, but does include all moneys received on the sale of the capital stock of the company, or on calls on stock ? A.—Yes.

Q.—Money that comes into the company for the first time in that way. A.—Yes.

Q.—Then in the item of expenditure I find an item for cash paid stockholders for interest or dividends, and also an item "Cash paid for commissions, salaries and other expenses of officials." To what extent do you check those two items? A.—Cash paid to stockholders?

The Chairman : Cash paid stockholders for interest or dividends? A.—That is taken from the ledger.

Mr. Tilley : Q.—And then how do you check the other item, cash paid for expenses in the way of commissions, salaries and so on? A.—That is collected from the various ledger items.

Q.—To what extent do you check the items that go to make up those items in the ledger? A.—That part is not checked in any further detail than taken from the books.

Q.—Just taken from the books as the total of each account? A.—Yes, that amount in one item is made up of agents' salaries, agents' travelling expenses, commissions to agents, first year commission, commission on single premiums, directors' fees, officers' salaries, officers' travelling expenses and agents' bonuses.

Mr. Langmuir : Q.—Are those all separate accounts? A.—Yes, in the ledger of the companies. The correctness of each of those amounts was verified and the total counted up to agree with the item.

Mr. Tilley : Q.—You checked over these accounts enough to see that they aggregated the amount set out in the return? A.—Yes.

Q.—Do you in any way make any inquiry as to what is included in expenses, or the propriety of any payments? A.—Sometimes.

Q.—What would move you to do that? Under what circumstances? When you say sometimes, under what circumstances? A.—I cannot recollect any particular circumstances at present. These are all the time occurring in the examination of the company.

Q.—You cannot tell me the nature of the circumstances that might arise which would lead you to do that? A.—No.

Q.—Would there be anything on the returns that are filed with you, in red ink, as to any information you had obtained about those items on your inspection? A.—Oh, I think not.

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Q.—No note made of it in any way?
A.—No.

Q.—Take the account for advertising, for instance, do you check that as a special account? A.—Not the various items which make up that account.

Q.—Do you have accounts for advertising submitted to you in detail? A.—The actual accounts themselves are not submitted. The entries of those in the ledger are often set out in detail.

Q.—I beg pardon? A.—The entries of the different payments for advertising are often set out in the ledger of the companies, and in other cases there will only be the total amount of the payments during any one month.

Q.—And whichever it is, you just take it as the company has it? A.—We take it as the company has it.

Q.—And you do not pretend to go back and check it during the year? A.—Not through the year, no.

Q.—Do you get any evidence at all from them or any information from the company as to salaries paid? A.—No.

Q.—You do not? A.—No. That is not one of the things we are required to get details of, other than the actual payments that have been made.

Q.—Do I understand that you make no inquiry to see as to the propriety of expenses of a company at all, so long as you find the item there is paid out for expenses, is that sufficient for you? A.—That is all I have to do with.

Q.—Well, that is all you do? A.—That is all.

Mr. Langmuir: Q.—Did you ever compare one year with the other? A.—Very often.

Q.—And if you find a large increase, an abnormal increase, if you ever do find it, do you investigate it further, or draw the attention of the company to it, or discuss it with them, or what do you do? A.—In certain cases I have asked the reason for the large increase, or for an increase; not usually.

Q.—Do you get it? A.—I get it.

Q.—You get the reason? A.—Yes.

Q.—Satisfactory? A.—It is usually.

Mr. Tilley: Q.—Sometimes not? A.—It depends on the way you look at it.

Q.—Why the way you look at it? A.—It explains the reason for the large increase.

Q.—But I mean a satisfactory reason or not? A.—Well, it is satisfactory in a way that it explains the transaction.

Q.—It explains how the item was paid? A.—Yes.

Q.—How the item came to be paid?
A.—Yes.

Q.—What do you mean by saying that it is still not quite satisfactory, that you think it was not a prudent or proper or legitimate expense or what? A.—Oh, not at all. The object was to find whether it was a legitimate expense, but I had no authority to criticize the company for the payment of that.

Q.—If you had authority, would you have criticized it? A.—I can tell that best when I see the authority.

Q.—You saw it? A.—Yes.

Q.—Now, if you had authority, would there have been occasions when you would have criticized? A.—Possibly. I have not any case in mind at the present time.

Q.—Can you not get some case in mind? If the Department had any authority to enquire into the propriety of payments made by way of expenses, have you run across items that you would criticize on your inspection? A.—The case that I have in mind is where several companies having paid out sums to a certain sanitarium, that has been brought to the attention of the superintendent, and I believe he has had some correspondence with some of the companies in that respect.

Q.—That is subscriptions? A.—Yes.

Q.—Subscriptions to hospitals or something else? A.—Yes.

Q.—Charitable gifts, so to speak? A.—Yes.

Q.—Then you say there is correspondence about that? A.—Yes.

Q.—Is that something received? A.—Well, that is something received; that is within the last year or two.

Mr. McCarthy: Was that regarded as within the prerogative of the Department?

Mr. Tilley: Q.—Did Mr. Fitzgerald take it for granted it was within his prerogative to discuss that? A.—I think he obtained a ruling from the Department of Justice.

Mr. Hellmuth: I would suggest again that Mr. Fitzgerald give evidence on this. He had the correspondence.

The Chairman: That is going to be produced by Mr. Fitzgerald.

Mr. Hellmuth: Why should this witness speak of it?

Mr. Tilley: It was just developing by the way. I did not think we would have to absolutely steer clear of it.

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The Chairman: The evidence as to that will be what Mr. Fitzgerald produces.

Mr. Tilley: Q.—Was that something that you took part in? A.—Not wholly—

Q.—Did you bring it to the attention of the Department? A.—I did in one case.

Q.—And that is how you came to be somewhat conversant with it? A.—Yes.

Q.—Leaving that out, is there any other line of expenses you have met in your inspection that, if you had the right or power or duty to criticize, you would criticize? A.—I have often gone over, with certain officers of the company, expenses as a whole in comparison with the premiums received.

Q.—That is to say, you have taken up with some companies the question of the amount of their total expenses as compared with their total income from premiums? A.—Yes, taking into consideration first year premiums and premiums of subsequent years.

Q.—That is to say, you make a distinction, do you, as to the expense on first premiums and subsequent premiums? A.—Yes.

Q.—Which class of premiums is it that you have been criticizing? A.—It is the whole expenditure.

Q.—You say you were rather distinguishing between first premium and subsequent premiums? A.—I mentioned first premiums and subsequent premiums merely as bases of getting at the expenditure of the companies as compared with the expenditure of other companies, and also as compared with their own expenditures for previous years, pointing out to them that their expense ratio was too high, that their expense ratio was increasing, and leaving it with them to deal with.

Q.—Why do you have to speak that way, and then leave it to them to deal with? A.—From the fact that as far as I can ascertain the Department has no authority as yet to deal with the expenses of companies; that is a matter within their own management.

Q.—So that in that way there has been, do you say, discussion verbally, or is that reduced to correspondence? A.—Not in every case to correspondence. I think in the case of one or two companies it has developed into correspondence.

Q.—And in the other cases by verbal discussion with the company you have rather drawn attention, at any rate, to what you think is something objectionable, or subject to criticism, to put it that way? A.—Something that the company should be on the alert to see if they could not make a better showing.

Q.—You would receive, would you, replies from the companies with respect to that—where you wrote, I mean to say? A.—Well, I cannot say as the companies were written to in respect to that one item only, but I think that in two cases companies have been furnished with the figures, the report that I have made to Mr. Fitzgerald, in which that among other points was treated.

Q.—I gather from you that there is a report from you to Mr. Fitzgerald on that subject? A.—In which that subject is—

Q.—Discussed? A.—Yes.

Q.—And then, having set it out in a report to Mr. Fitzgerald, you have sent copies of the report to some companies, have you? A.—To two of the companies that I have in mind.

Q.—We would like to get that report and any correspondence that followed with any companies on that subject. Did you say that having gone that far you thought that you could go no further? A.—No further.

Q.—That you could not follow it up in any way by action that would result in bringing about the condition of affairs you thought should exist? A.—Yes.

Q.—Did you in any way point out how the expenses could be reduced or in what respect they were becoming improper? A.—I pointed out in what respects they were becoming improper, but I was not able to suggest in any way that they could be reduced.

Q.—Did you mean to say that there was no way of solving the difficulty that presented itself to your mind, or that you did not feel that you should take any step in that direction, which? A.—I was unable to take any step in that direction.

Mr. Hellmuth: Is this in the report?

Mr. Tilley: Q.—Is this in the report? A.—I think it would be shown in one report, perhaps a suggestion as to—

Q.—How to overcome it? A.—Not as to how to overcome it.

The Chairman: I think we had better wait on that particular branch till the report is produced.

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Mr. Tilley : I just gathered there was more than one report.

Witness : I have just made mention of two.

The Chairman : Two companies ? A.—Yes.

Q.—Are they mentioned in one report or two ? A.—No.

Q.—Two reports ? A.—Yes.

Mr. Tilley : Shall we adjourn now ?

The Chairman : I was going to make a suggestion to sit an hour or two longer, and adjourn for the afternoon.

Mr. Tilley : That would suit me.

Mr. Lebeuf : It would suit me as well.

Mr. Hellmuth : No objection.

Mr. Geary : No objection.

The Chairman : There is no objection. I make it on the assumption that Mr. Fitzgerald will not be here to-day.

Mr. Tilley : No.

The Chairman : So there would be no objection to adjourning.

Mr. Hellmuth : Will Mr. Blackadar be open for examination before Mr. Fitzgerald is recalled ?

The Chairman : What do you say as to that ?

Mr. Hellmuth : I should like to examine him before Mr. Fitzgerald is called.

The Chairman : I thought perhaps you would prefer it the other way.

Mr. Hellmuth : No, I can remember the evidence of one witness.

Mr. Tilley : It is all being reported.

Mr. Hellmuth : The burden should not be cast upon me of reading through all that evidence.

The Chairman : I do not think there will be any prejudice to anybody as far as the investigation is concerned.

Mr. Tilley : Q.—Dealing with this question of securities, do you in any way check to see whether the security is one that comes within the Act or not ? A.—Yes. That is a matter that comes within Mr. Fitzgerald's particular domain.

Q.—But I was asking as to companies that you inspect ? A.—I call the attention of Mr. Fitzgerald—of course the statements come to Mr. Fitzgerald ; it is setting out in black and white the nature of all the securities, and when I come across matters, looking over the statement, anything that I think to be a security not within the power of the company to invest in, I call his attention to it ; further he may also become

acquainted with it himself by his own inspection of the company.

Q.—Do you in any way bring it to the attention of the company ? A.—Yes.

Q.—What do you do in that regard ? A.—Let it go at that.

Q.—You just bring it to the attention of the company and of Mr. Fitzgerald ? A.—Yes.

Q.—What I understand from you then is that as soon as you have brought it to the attention of the company and also brought it to the attention of Mr. Fitzgerald, that you feel that it passes out of your jurisdiction ? A.—Yes.

Q.—Do you bring it to the attention of Mr. Fitzgerald in a written report ? A.—Not always, sometimes written and sometimes verbal.

Q.—Have you found on occasions items in the securities held by the companies that you think are not authorized ? You have found that ? A.—Yes.

Q.—And there are reports which you can produce on that to Mr. Fitzgerald ? A.—I think so.

Mr. McCarthy : If you have those, will you produce them ?

Mr. Tilley : Q.—Before going on with that, you had better produce those and be prepared as to any verbal communications as well on the others, because we want to clear that up. What does come within your special jurisdiction, as distinguished from Mr. Fitzgerald's jurisdiction, is the work under section 15, subsection 10a ; is that right ? A.—Yes.

Q.—Valuation of policies. Now, that is something that you know more about than Mr. Fitzgerald even, I understand. He does not claim to be an actuary, and I think he referred us to you for the definition of what a reserve is ? A.—The definition of a reserve ?

Q.—Can you give us a polished one, the one he promised from you ? A.—Do you want the exact formula ?

Q.—No, I want something we will understand ? A.—The policy at its inception promises to pay an amount, either at death, or at some future period ; that benefit promised has a present value, which is called single premium or present value of the sum assured. Instead of the assured putting down a single premium, or a lump sum for that benefit, he usually pays in annual instalments the premium. At the beginning of the policy this lump sum, or single premium, is exactly equal to the present value of the net premiums to be paid by the policyholder. As the policy grows older, and nearing matur-

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ity, or getting nearer maturity, this present value increases. On the other hand, the number of premiums to be paid decreases, and so the present value of those future premiums decrease. The difference between this present value of the benefits to be paid, and the present value of the net premiums to be received, constitutes what is called the reserve, which the company should hold in respect of that policy.

Q.—It is the difference between the liability on the policy computed as of the present time, and the worth of the policy to the company by future premiums computed at the present time? Would that be the reserve. A.—Yes, the future net premiums.

Q.—So that that difference between the present worth of the moneys the company may expect to receive and the liability the company is under at a future date, computed as at the present time—that difference is the reserve on the policy? A.—Yes.

Q.—That is something that the level premium companies should require under the Act to have as an asset always for the policyholders; is that right? A.—Yes.

Q.—Their assets, which must always equal their liabilities, must include that item of reserve, and that is the reason that the reserve is required to be computed by your department? A.—Yes.

Q.—To see that the companies are keeping that amount to answer that reserve? A.—Yes.

Q.—What is meant by the net premium? A.—The net premium is the premium computed according to a certain table of mortality, and at a certain rate of interest.

Q.—It is the amount that must be paid taking the mortality table and a certain rate of interest to produce a certain amount at the time by the mortality table death will occur? A.—Yes.

or, more exactly. it is the amount that must be collected in the future, the present value of the benefit to be paid by the company.

Q.—Then in the net premium is there anything included by way of expense? A.—Nothing in the net premium.

Q.—Or cost of carrying on the business? A.—No.

Q.—It is the premium that is necessary without any such matters as that coming into play at all? A.—Yes.

Q.—The net premium is something that can be computed by a mathematical calculation, taking the policy and the mortality table? A.—Yes.

Q.—Just in the same way as you compute the reserve. A.—Yes.

Q.—And the net premium would be the same if you were using the same mortality table? A.—Yes.

Q.—And any difference would be accounted for by the amount added to the premium for expenses? A.—Yes.

Q.—The amount added for expenses is the loading? A.—Yes.

Q.—And it is the real load, is it not, sometimes? The amount of the expenses seems to be a load very often. What percentage of the gross premium income would be the net premium? Have you ever figured that out? A.—I have in a few instances. Of course, that depends upon the nature of the policy, upon the age, and upon whether the premium is a participating or a non-participating.

Q.—That would depend upon many circumstances such as these? A.—Yes.

Q.—Figuring it out what result do you get? A.—I have an instance of it here in the case of the Home Life policy, taking the net premium computed H. M. 3 1-2 per cent. and comparing it with the non-participating premium and with the participating premium—that is the gross premium—brings the following result:—

Age.	Whole Life.					20 Pay Life.					20 Year End'wt.				
	Net premium Hm. 3½%.	Office pre- mium, non- profit.	Percentage.	Office prem- ium, profit.	Percentage.	Net premium Hm. 3½%.	Office pre- mium, non- profit.	Percentage.	Office prem- ium, profit.	Percentage.	Net premium Hm. 3½%.	Office prem., non-profit.	Percentage.	Office prem. profit.	Percentage.
20	\$ 13.30	\$ 15.35	86.6	\$ 19.00	70.00	\$ 20.34	\$ 22.80	89.2	\$ 27.40	74.2	\$ 38.26	\$ 43.80	89.4	\$ 48.00	79.7
30	17.69	19.60	90.3	24.25	72.9	25.17	27.20	92.5	33.25	75.7	39.47	43.45	90.8	49.40	79.9
40	24.65	26.80	92.0	32.60	75.6	31.93	33.85	94.3	41.35	77.2	41.90	45.30	92.5	52.25	80.2
50	36.67	39.90	91.9	47.05	77.9	42.57	44.90	94.8	54.10	78.7	48.02	51.10	94.0	59.45	80.8

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Q.—Can you give any general percentage for Canadian business?

Mr. Langmuir: Average?

Mr. Tilley: Q.—Yes, have you ever estimated that? A.—I have never made any estimate more than what I have gathered by the compilation of it.

Q.—What would that lead you to say? A.—Taking the non-participating and the participating as a whole, it would indicate about 80 per cent.; that is just a rough approximation.

Q.—So that 80 per cent. of the premiums, you would think, on the average would be net premiums? A.—Yes.

Q.—And that would leave 20 per cent. for the loading or for expenses, and profits to shareholders and so on? A.—Yes.

Q.—What percentage can you say of the gross premiums received is the item of expense? Is it more than that 20 per cent. or less? A.—It is more than the 20 per cent.

Q.—So that while according to the premiums charged, there appears to be 20 per cent. only for expenses, as a matter of fact the expenses exceed 20 per cent.? A.—Yes.

Q.—Exceed 20 per cent. by how much, can you say? A.—I cannot say off hand.

Q.—About? A.—From 25 to 30, I should say. It depends altogether whether the company is a young or old company, and the nature of business it does and other circumstances.

Q.—But what would be the extent of the difference between the different companies then? Would any of them be less than this 20 per cent. that you have spoken of? A.—I do not recollect any case where it would likely be less than the 20 per cent.

Q.—You do not recollect any case where the expenses would be within that 20 per cent.? A.—No.

Q.—They would run then, how much over the 20 per cent? Five per cent. A.—It would run 20 and 30, and in the case of a young company, or a company doing an industrial business, it would run up very high.

Q.—How high? A.—I may say these ratios here refer to level premium, and not in any way to industrial insurance, to what we call ordinary insurance.

Q.—It would run then from 20; I suppose, as a fact, none of them are doing it less than 20 per cent. basis? A.—I do not think any company can possibly do it under 20.

Q.—Do you think any company is doing it under 25? A.—I could not say. I think that exhibit that has been put in—I have not examined the figures—

Q.—That is a general statement that has been put in? A.—Yes.

Q.—I would ask that you examine that letter and go over that, but can you say now, from your knowledge and the investigation that you have made of the subject with which you are so familiar—what would you say about that? A.—About what?

Q.—About the minimum percentage for expenses of any company here? A.—Well, that is a question I cannot answer. If the company is doing no new business, the minimum expense might be as low as five or ten per cent.

Q.—If it is not taking on new business—A.—If it is doing a large amount of new business or a large amount in comparison with its old business, then the percentage must necessarily be high.

Q.—But you think that the cost would run over the 20 per cent.? A.—Of companies actively engaged in business.

Q.—And would 30 per cent. be too high for it? A.—I would not like to state just what the average was.

Q.—Where, then, do the companies get the money to pay these expenses, if the premium charged only allows 20 per cent. for expenses, and their expenses are more than that amount? A.—These net premiums that we are dealing with are based upon a mortality table, the H. M., which gives a higher rate of mortality than has been actually experienced in Canada. They are also based upon the rate of interest which is lower than the interest which has been earned by most of the companies doing business in Canada. So in that way there has been at least two sources from which the companies have derived large profits from excess interest and from saving in mortality.

Q.—Just how would the saving in mortality bring returns to the company? What benefit would accrue there? How would you base the calculation? What difference is there—probably we will put it that way first—what difference is there between the actual experience here in Canada and the H. M. table? A.—That again varies in the various companies, according to the nature of the business they do, and according to the length of time the company has been in business, and other considerations. Taking on a whole 75 per cent. might perhaps be used as an average. Some companies will have a percentage much lower than that, others in special classes of policies perhaps, will show a percentage of the actual to the expected mortality greater.

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Q.—So that you think it would be fair to say that the actual experience is about 75 per cent. of the mortality that happened to be the result based on the H.M. table? A.—I think that may be taken as an illustration.

Q.—The benefit to the company of that is, I suppose, the deferring of the payment of the 25 per cent.? A.—Yes.

Q.—Of that death rate? A.—Yes.

Q.—Or policy claims? A.—Yes.

Q.—The deferring of the 25 per cent.? A.—Yes.

Q.—And, I suppose the benefit of interest on the 25 per cent., there would be extra premiums received by the company during the longer life of the insured? A.—That is it.

Q.—So that in that way the company gets a profit that the figures based on the calculation provided in this Act would not lead one to expect probably? A.—Yes.

Q.—So, that the basis on which the reserve fund is computed under this section of the Act—that is the table—is higher than the result here warrants. and the rate of interest is lowered you say? A.—The rate of interest is lower.

Q.—That is to say, assuming it is put on the 3 1-2 basis, which is the rate specified in the Act upon which it is to be computed after 1915? A.—Yes.

Q.—Could you tell me approximately what the difference is between the rate specified in the section, 3 1-2 per cent., and the actual rate received? A.—That rate varies in the various companies. Among the Canadian companies as a whole during 1904 the rate was approximately 5 4-5—the rate received upon the main assets of the company.

Q.—So that you think the rate received by companies was about 4 4-5 per cent. on their investments? A.—Yes.

Q.—Instead of 3 1-2 per cent. which one might assume the companies were expected to receive on a reading of this section of the statute? A.—Yes.

Q.—Can you say whether that rate 4 4-5 is any different from the rate that was obtained by the companies prior to this Act of 1899. Were they then enjoying about the same rate, do you know? A.—The rate in the early years, that is 15 or 20 years ago, was very much higher than it is to-day; that rate went down gradually, I think, until about the end, or during the year 1899, when it reached the minimum. Since then it has been slightly increasing.

Q.—So that at the time this Act was passed the interest rate was probably

lower than at any time during the last fifteen years? A.—Yes.

Q.—Could you in any way attribute the larger rate that insurance companies received to the broader powers of investment given in 1899? A.—I think it can be attributed purely to the broader powers given, also to the large amount that is being loaned by the various life companies in Manitoba and the Northwest, upon which a large return of interest is being received.

Q.—So that you think possibly while the change in security, in the very nature of things, could not give the whole result, still that that has been a factor in enabling the companies to obtain a higher rate of interest than they otherwise would? A.—Yes.

Q.—Could you in any way approximate what benefit that would be to the companies having the larger field of investment? A.—No, I cannot say.

Q.—I suppose that would be too fine a calculation? A.—Yes.

Q.—Did you notice, or was there as a fact any change in the securities that were taken by companies after the passing of this Act? Did companies change their investments after the passing of the Act materially? A.—That can be better ascertained from examining the blue books for the last five years, the nature of the securities. Most companies, I think, have taken the enlarged field of investments, the companies that have been making investments to any extent.

Q.—They have in the last four or five years widened the range of investments? A.—Yes.

Q.—All that, as you say, would be set out in the annual blue books? A.—Yes.

Q.—As to some companies, I suppose the change in the Act of 1899 was no benefit to any great extent. They had as broad powers or broader powers? A.—Yes.

Q.—And of course the powers that they had have not been in any way limited by the Act; their powers under their Act of incorporation remain just the same? A.—Yes.

Q.—Then what do you say is the result of including in the Act this section 35, regarding the valuation of policies; is that a section that is used by companies? A.—It is used by nearly all the companies.

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Q.—What benefit is it to have that provision? This is for the purpose of enabling them to figure it out in their own way? A.—We, I think—

Q.—It does not authorize them to have any less Reserve Fund, does it? A.—Not at all. A number of the companies were computing their premiums upon other tables of mortality than that set out in the Act, and I think the section was for the purpose of permitting those companies to continue valuation according to the methods that they had been accustomed to.

Q.—So as not to disturb their methods of calculation? A.—Their method of calculation, and possibly the methods of dividing their profits.

Q.—When you compute the reserve under section 25, subsection 10, do you compute strictly in accord with this section? A.—Yes.

Q.—Have you yet made any change in the rate on which you computed for policies that were in existence prior to the Act? A.—No.

Q.—You still compute these on the basis of 4 l-2 per cent.? A.—Yes.

Q.—And your idea is not to compute them on any different basis until by the Act the company is obliged to compute them on a different basis of reserve? A.—Yes.

Q.—That means you would make one change after 1901, and the other in 1915? A.—Yes.

Q.—When all will be brought to the same level? A.—Yes.

Q.—Have any of the companies changed their method of computing the reserve as to the rate of interest since the Act went into force with regard to old business? A.—Several of them have.

Q.—What ones have? A.—I can give you a few from memory. The Canada Life have brought all their old business down to H.M. 3 l-2, and have adopted the H.M. 3 for policies issued since Jan. 1st, 1900. The Confederation continues the old rate for policies issued prior to December 31st, 1895, and 3 l-2 per cent. for policies issued for the year 1896 inclusive, and a 3 per cent. basis for policies issued since January 1st, 1900.

Q.—The Confederation Life seems to be making a gradual change? A.—Yes; that is the practice adopted by a number of the companies.

Q.—To make it a little less rating each year? A.—Yes.

Mr. Geary: Q.—What page is that? A.—105 of the blue book. The Dominion Life has all its old business down to the H.M. 4 per cent. basis. The Excelsior has also started to increase its reserve by bringing its 1889 to 1890 business down to the H.M. 3 l-2 basis. The Federal has the H.M. 4 l-2 previous to December 31st, 1898, and the H.M. 3 l-2 and 3 per cent. since that date. The Great West, I believe, has made no change, except that all the new business since January 1st, 1890, is computed on the H.M. 3 l-2; previous to that they had the Actuaries 4 per cent.

Q.—1900 you mean? A.—Yes, 1900. The London Life has increased its reserve upon its industrial policies by adopting 3 per cent. for business done since January 1st, 1900. The Mutual Life of Canada had previous to January 1st, 1900, computed its reserve on the Actuaries 4 per cent. It continues on that basis, but has adopted the 3 l-2 for 1900, 1901 and 1902, and has made a further reduction to 3 per cent. for the years 1903 and 1904.

Mr. Hellmuth: Q.—This is all at page 105? A.—Yes.

Mr. Tilley: Q.—You are near the end, are you? A.—Yes.

Q.—Better put it on the record? A.—The North American Life is gradually increasing its reserve by adopting the H.M. 4 for policies between the years 1897 and 1900. The Sun Life has been gradually increasing its reserve, but I understand the last statement sent in it has brought all its business down to H. M. 3 l-2 per cent. basis.

Q.—That is the statement for the year 1905 which has just been sent in? A.—Yes.

Q.—Up to the reduction of the rate in 1905, had the Sun Life made any reduction? A.—It had made a reduction in the rate in the statement for 1904; it is shown here.

Q.—So that it made its reduction in the two years? A.—Not in the two years. The great reduction has been made in the last year, bringing all its business down to 3 l-2 basis. Previous to that it had brought it down to 3 l-2 on all business since 1st December, 1896.

Q.—Did I understand you to say that some of the companies are computing their reserve as to certain policies at a rate of 3 per cent.? A.—Some of them at a rate of 3 per cent.

Q.—That is not required by the Act at any time. So that some of the com-

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panies since this Act was passed have got a portion of their business, at any rate, as you have stated, now down to a basis of interest computed at three per cent? A.—Yes.

Q.—Do you know why that is? A.—I cannot say as I can give the reason; that I have no doubt would be better and more accurately given by the actuaries of the various companies.

Q.—What reasons would prompt them to do that? A.—I could hardly state what their own reasons are.

Q.—It increases, at any rate, the amount of the reserve the companies hold, and by lowering the rate to three per cent. lower than the Act requires the rate to be at any time, they are holding a larger amount of their earnings or their income in their own hands under the heading of reserve fund? A.—That is the result.

Q.—And as to the companies that are doing that and the dates when they commenced to do that, you have given that to us from the blue book? A.—Yes.

Q.—Then you make the five-year valuation of the policies in your Department as a branch of your special work, do you? A.—Yes.

Q.—How do you proceed with that work? A.—Before the close of the year schedules are sent to say the policies are to be valued. Those are filled in in the head offices of the company and are returned to the Department.

Q.—And then that is returned to you? A.—Yes.

Q.—What do you do when you receive them? Is each policy valued separately? A.—When the policies are returned separately they are so valued. When they are returned in groups they are valued in that way.

Q.—How can they be returned in groups? A.—By grouping together policies of the same kind issued in the same year, to persons of the same age.

Q.—They are never attempted to be grouped except under those conditions? Then the calculation of reserve would be perfectly accurate, would it, as to those that are grouped? A.—It would be perfectly accurate, adopting the mid-year system of valuation.

Q.—I mean to say, is the result you get just the same as though you valued every policy separately? A.—If the policy when valued separately was valued by the mid-year plan, the result would be exactly the same.

Q.—Will you explain what you mean by the mid-year plan? A.—The mid-year valuation is assuming that every policy has been issued on the 1st of July in each year, and the reserve is based upon that assumption.

Q.—That all the policies for the year are issued on the 1st of July? A.—Yes.

Q.—Is that the method you adopt? A.—That is the method we adopt in most cases.

Q.—What decides you as to the method you adopt? The method adopted by the company? A.—Not at all.

Q.—What decides you? Do you decide that upon whether the company have returned the policies grouped or otherwise? A.—Grouped or otherwise?

Q.—If the policies are returned grouped, your calculation is based on that assumption? A.—Yes.

Q.—That they are all 1st July policies? A.—Yes. If they are not returned grouped, then we usually follow them; that is, if the exact date of entry has been returned, we follow them according to the exact date at which they have been, or the nearest first of every month.

Q.—You say you sometimes do it that way, if the information is given? A.—Yes.

Q.—You do not always observe that? A.—No; the difference in the valuation is so small it would not make any difference.

Q.—Are you informed as to the reserve that is computed when the policies are sent in? A.—Not at all.

Q.—You start out without any knowledge of the result the company has got from the computation it made of the reserve itself? A.—Yes.

Q.—Mr. Lebeuf has asked me to ask you whether there is in this extra profit a profit on lapsed policies—whether that creates a profit to the company? Sometimes it does not? A.—Sometimes it does not.

Q.—In the earlier stage of a policy there is sometimes no profit? A.—There is very little profit. There is a certain profit derived from the policy, but not to a very great extent. Companies usually guarantee surrender values almost equal to the reserve upon the policy.

Q.—So that any source of revenue from that branch would be very small? A.—There is an appreciable revenue from that branch, but it is small compared to the other sources.

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Mr. Hellmuth: I understand, Mr. Chairman, we adjourn till Tuesday?

The Chairman: Yes.

(The Commission then adjourned till Tuesday, 20th inst., at 10 a.m.)

SIXTH DAY.

Ottawa, Tuesday, March 20th, 1906

The Commission resumed at 10 a.m. to-day.

Mr. Shepley: We have thought it proper, Mr. Chairman, to prepare and have the Secretary send to the various insurance companies which are the subject of this investigation a series of questions, the object of which is, as far as possible, to elicit from the companies accurate and detailed information upon subjects which will require investigation, and their answers will be followed, I need hardly say, by a very scrupulous and independent examination and verification. In the meantime, however, the document which I ask the board to make part of its record is ready, in printed form, and if my learned friends who are concerned in the inquiry will permit me to let them all have copies also, perhaps they may be of service to them. In this connection, I want to say that I am indebted to my learned friend, Mr. Hellmuth, who was good enough to make some suggestions which I find are exceedingly valuable, and which, in all cases, I have adopted, the result being that the questions are, I think, as complete as, at all events, I have been able to make them. I think there will be sufficient copies for all counsel present.

Mr. Hellmuth: I desire to say that yesterday I saw Mr. Shepley, who was good enough to call with these questions. I am afraid I cannot say that my suggestions were of a very valuable character, but I was glad to give all the suggestions I could in these matters. In my judgment those questions are very full and complete, and so far as it is possible at present to go into the matter, will solicit information from which, as my learned friend points out, it will be easy to follow up the examination of the affairs of the different companies. I understand from my learned friend that this is in a sense a starter to get information which can afterwards be followed up, and certainly I think a perusal of those questions will show how far reaching they are. (Exhibit 12).

Mr. Shepley: Mr. Blackadar is here, and, with the permission of the Board, I desire to ask him a few further questions.

Mr. A. K. Blackadar, recalled. Examined by Mr. Shepley:

Q.—Have you brought us this morning any papers or documents in pursuance of the suggestions that have been made already during your examination? A.—I brought a memorandum of documents, which I produce.

Q.—Take each paper that you have and tell me what it is? A.—I produce the notebooks showing date of inspection. These are the notebooks, so far as they have been collected in the office.

Q.—This basket contains the notebooks in which you made the notes while in course of inspection? A.—Yes.

Q.—Those are the notebooks in which, as you say, you made notes during the course of inspection. What years do they cover? A.—From 1890, I think, to 1905.

Q.—Will you open a notebook, say for 1905; take any one; I just want to get an idea of the method, and I am not so much concerned with the detail? A.—I might say in explanation that these were merely scratch books, used by me, and I made no effort to retain them. These are what were gathered up in the Department, and in a number of companies I did not use a note book at all, having left it behind, perhaps, and used more or less loose slips on which I put my calculations.

Q.—I understand from that that what you do produce is not exhaustive? A.—No.

Q.—That in some cases you made notes otherwise which have not been preserved, and in some cases you did not bring notes back with you at all; is that right? A.—That is right.

Q.—And in some cases your notebooks when you brought them back were not preserved, because they were not considered to be of ultimate value? A.—Yes. I do not know of any that have been lost.

Q.—Take one out at random, the first one you come to? A.—Here is one.

Q.—This is inspection of 1905, book 1, and you have here apparently upon the outside of the book indexed the various companies. Take the first one, because I want to see what it is. You have already told us, I think, that when

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you went into the office of the company the examination you made was independent, you laid aside the return of the company, and did not make use of that, while you were making an independent examination of the company's books; is that right? A.—Well, the information that I got was independent of the return. I may have used the return in checking off the item.

Q.—I want to find out whether or not your work was independent; I think you have said already that it was? A.—Yes.

Q.—Then take the first company of all, the Dominion of Canada Guarantee and Accident Company, February 2nd, 1905. That would be the date of your commencement of the examination? A.—Yes.

Q.—You commence with cash in banks, cash ditto, special trust, cash Union Bank. Then those items are totalled; that would be, of course, in the nature of assets? A.—I could not tell without—

Q.—I take it for granted that those would be assets? A.—Those would probably be the ledger balances of the cash in those particular books.

Q.—Well, they would be in the nature of assets? A.—In the nature of assets.

Q.—The next entry I see is amounts written off the books, value of bonds \$587.98, to loss and gain account, \$86.16, the difference being \$501.80. Why, or for what reason, would they come to be the next item to the cash in the banks? Because of its position in the ledger? A.—Because of its position in the ledger.

Q.—What would the ledger account be out of which those items would be taken? What would be the total of that ledger account? A.—I could not state without having the books before me. It very probably would be of the nature of a profit and loss account.

Q.—Then the next I see is "Accident claims, industrial," carried out; then another heading, reinsurance, with some small items, making \$300 altogether, and the next item is accident premiums, sickness premiums, industrial ditto, making a total of \$185,000 off, to which you add industrial policy fees. Those are all in the nature of income; is that right? A.—I believe that is where I was checking the nature of incomes.

Q.—Then rebates; that would be in the

would be a reduction from the premium income.

Q.—Because of some expenses occurred in connection with it? A.—Yes, a return of a premium, of that nature.

Q.—What do you understand a rebate to be? I am just interjecting this, but I would like to ask you that. What do you understand a rebate to be in the language of insurance? A.—I think in the connection that it is made in that, in the case of fire companies and accident companies, it would be something in the nature of a deduction from the regular premiums.

Q.—A deduction of which the person paying the premium would get the benefit? A.—A deduction which the person paying the premium would get the benefit.

Q.—That would be a rebate, strictly so called? A.—Yes. The word "rebate" there I think has no connection with the ordinary use of rebate with life insurance.

Q.—Because this is not a life insurance company, but a guarantee and accident company? A.—Yes, a guarantee and accident company, on account of the lowering of a risk, like, in fire or accident—

Q.—If the risk is improved? A.—If the risk is improved.

Q.—Or if a man having an accident insurance goes into a less hazardous occupation? A.—Yes.

Q.—That would be a case for a rebate? A.—Yes.

Q.—I am not so much concerned with that, and I have only asked you because the word was there, and I have interjected it into another subject, as I say, but in connection with life insurance it is a rebate which, in principle at all events, the person paying the premium gets the benefit? A.—Yes.

Q.—Are you sufficiently familiar with the subject practically to know whether that is so in practice as well as theory; that is, that the person gets the benefit of rebates in life insurance? A.—I am not.

Q.—Taking this up again, the next item is "office furniture," balance at the beginning of the year and balance at the end of the year so much, and written off so much. Then you arrive at a balance which is cash expenses, being the difference between that at the beginning of the year and that at the end of the year; that would be, of course, in the nature of an asset? A.—It would both be in the nature of an asset, and it would

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also check an item in the expenditure, the cash paid for office furniture.

Q.—Then, mortgagers' account; what would that be? An asset? Very small asset in this case, but it would be an asset? A.—It would be an asset, amounts paid out on account of insurance probably in connection with mortgages, which would have to be re-collected from the—

Q.—What is that abbreviation there? Commission? A.—Commission, yes.

Q.—That means commission paid in respect of getting the business of the company together; is that right? A.—Commissions paid in various ways to agents.

Q.—I see on the other side some expenses, rent account, sundry, postage, printing; that is the annual expenditure; that is the heading under which they would fall in a statement? A.—Yes.

Q.—Salaries—would that be the same? A.—All those are expenses; there is no distinction which side of the book it is on.

Q.—Stocks and bonds at the beginning of the year; stocks and bonds written off, and bonds, etc., at the end of the year; that is in the nature of assets again, is it? A.—They are probably tracing around the stocks and bonds—the connection between the value of the stocks and bonds at the beginning of the year and those at the end of the year—the book value.

Q.—That would be arriving at what would be in the nature of an asset? A.—Yes.

Q.—Then you have ledger assets at the beginning of the year, you have there collected the ledger assets, and then you have the ledger assets at the end of the year, collected at the same computation? A.—Yes.

Q.—Then I think I will not follow that any further. We see the end of it. As you told me, that is work that was independent so far as you are concerned to this extent, that it was an examination of the company's books apart from, but perhaps checked, by their returns? A.—Yes.

Q.—And that would be so with all these notebooks which you produce; is that right? A.—That is right.

Q.—What else do you bring with you this morning besides the notebooks? A.—List of names of all companies that

have been inspected in the last fifteen years in time for printing.

Q.—This is a list of companies not inspected in time for the blue book printing during the last fifteen years, and memoranda of changes made in consequence of inspection; also duties of inspection after the issue of the blue book. You have prepared or supervised the preparation of those? A.—I have had it prepared for me in the office.

Q.—Have you verified it? A.—I have not had time to verify it or an opportunity.

Q.—Perhaps you will do that for us, because I shall want to have it verified. I want, if you quite understand, whenever you prepare a statement, first to verify it, or to be able to give me somebody who will. Now, there are two in the year 1890, according to this. (Ex. 13). Is that right, Mr. Blackadar? There are two instances of that sort of thing having happened in the year 1890, or in respect of the returns of 1890? A.—Yes.

Q.—And those instances are the Dominion Safety Fund Life Association and the Mutual Relief Society? A.—Yes.

Q.—The examination in each case was made in the month of August, 1891, according to this statement? A.—Yes.

Q.—And in each case a change was made in the case of the first named association, policies becoming claims by death were reduced from eighteen to sixteen—and, just follow me, please—and in the case of the latter named, the Mutual Relief Society, the amount of unsettled claims was raised from \$3,500 to \$6,500 as a result of your examination? A.—Yes.

Q.—There seems to have been only one instance in— A.—Pardon me; you say it is the result of my examination. I do not know just which companies in that list that I examined personally; there would be very few.

Q.—You are going to be able to say when you have verified this that this is correct, whether you made the personal examination or not? A.—Yes, that list was made from the returns of the company, and from whatever—

Q.—We will hurry through this, because I do not attach so very much importance to the details as to the fact. Then there seems to have been only one instance with respect to the returns of 1891? A.—Yes.

Q.—The Dominion Safety Fund Life Association, not examined till August,

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1892, and there seem to have been some alterations made, as to the result of the examination, though the total amount is not very considerable. Do you assent to that? A.—Yes, the changes were not very material.

Q.—Now, these are not arranged apparently in order. That was 1891. Here is 1896, and between them one of 1903? A.—That is a typographical error; that should be 1893.

Q.—With your permission, I will make that change upon the document itself? A.—That is right.

Q.—And then in respect of the returns for 1893 there was just one instance, the Great West, which was not examined till July and August of 1894? A.—That is right.

Q.—And the result of the examination was not to affect at all the return as printed in the blue book? A.—As printed in the blue book.

Q.—In 1896, or with respect to the return of that year, there seem to have been four instances, two examined October, 1897, two in November, 1897, and in none of these cases did the examination develop any change? A.—No

Q.—Then in respect to the returns for 1898, one company was late, not examined till October, 1899; is that right? A.—That is right.

Q.—And some changes made, as appears here; that was also the Great West? A.—Yes.

Q.—I think I understood you to say in the previous part of your examination that the Great West was sometimes made an exception because of the distance? A.—Yes.

Q.—Then in respect of the returns for 1899, one instance only, examined in November, 1900; that is right, is it not? A.—Yes.

Q.—In the returns for 1900 one instance only, examined in October, 1901? A.—Yes.

Q.—For 1901 one instance; for 1902 two instances; 1903 one instance; 1904 three instances? A.—Yes.

Q.—What is the next document? A.—Correspondence re charitable gifts by companies.

Q.—Let me read it as it is in the memorandum, so that we will have it exactly: "Correspondence re charitable gifts by companies." Now, let us see if this is arranged in the reverse order, as they sometimes are. That is correspondence between Mr. Fitzgerald and Mr. Goldman, between Mr. Fitzgerald

and Mr. Cox, between Mr. Fitzgerald and Mr. Junkins. And who is Mr. Spence? He seems to be a policyholder of a leading Canadian life insurance company. (Ex. 14.) Are you able to verify this as being all the correspondence upon the subject in the Department? A.—I do not know of any more.

Q.—I must ask you the same question, as I did in respect of the other document: Have you yourself verified that? A.—I have not.

Q.—You will do so for us before we are through? A.—Yes.

Q.—Subject to verification, I do not know that it may not be useful just to read this. I am sure none of my learned friends will misunderstand when I say I have not myself read it, but perhaps I should have taken pains to read it. However I have not had time since I have been here to read everything. I should think, by looking at the very second letter, that the thing is not complete. The first letter is dated 11th January, to which Mr. Fitzgerald replies on the 18th January, 1906, and in the second clause of his letter he says, "In reply to a somewhat similar letter received from the chief officer of a life insurance company about a month ago, I wrote as follows." So that it cannot be all here. I think I will ask you to supplement that and verify it before I make use of it? A.—This is what was furnished me by Mr. Fitzgerald. I understood from him that the letter to which reference is made here was a private letter he was not at liberty to produce.

Q.—Then we will have to ask him about that. That is what you understand from him, at all events. If that is so, perhaps I had better go on. This is a letter from Mr. Goldman, Managing Director of the North American Life, to Mr. Fitzgerald, November, 1896. (Letter read.) To which Mr. Fitzgerald replies on the 18th. Then Mr. Goldman writes a letter which I need not read. Then there is some correspondence with the Department of Justice. Mr. Fitzgerald writes the Deputy Minister, putting a case before him, stating what his opinion is, and asking him whether that opinion is concurred in, and if not, under what circumstances or conditions the payment might be justifiable, to which there was a reply from the Deputy Minister. (Letter read.) Then on the 16th February the fact that the law officers of the Crown had expressed that opinion is indicated by Mr. Fitzgerald in

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a letter to Mr. E. W. Cox, of the Canada Life Insurance Company. (Letter read.) On the 17th February Mr. E. W. Cox answers that letter. (Letter read.) Then on the 28th February Mr. Fitzgerald writes to Mr. Junkin of the Manufacturers' Life. Then this is a precise transcript of the letter to Mr. Cox, stating the law officers of the Crown had advised this was ultra vires, and asking what explanation the company had to offer. Then Mr. Junkin writes a letter on the 8th March. (Letter read.) Then he encloses in a subsequent letter, 9th March, copies of two letters from gentlemen who speak of the treatment of the sanitarium from the standpoint of policyholders who have had experience there. Has anything been done since in the Department with reference to the Manufacturer's Life and its subscription? A.—I am not aware that anything has been done.

Q.—The matter rests where Mr. Junkin's letter left it? A.—Yes.

Q.—Then what do you bring next? A.—The two reports mentioned in this.

Q.—In memorandum 5a? A.—Yes.

Q.—That reads, "Correspondence re expense ratio to income, and any reports made by Mr. Blackadar to the superintendent." Then you produce in respect of that two reports? A.—Yes.

Q.—Is there any correspondence, or are those just copies of your two reports? A.—Here is a letter.

Q.—Who is John McKay? A.—Robert McKay; he is a director of one of the companies.

Q.—What company is it? A.—The Royal Victoria.

Q.—I see there is some further correspondence. First we have a report signed A. K. B.; that is yourself? A.—My initials.

Q.—And it does not appear to be addressed to anybody; as a matter of fact, it was a report to Mr. Fitzgerald? A.—To Mr. Fitzgerald.

Q.—Dated 25th March, 1905, a year ago? A.—Yes.

Q.—It is upon the subject of the Royal Victoria Life Insurance Company? A.—Yes.

Q.—Had you, when you made this report, just completed your inspection of the affairs of this company? A.—I had.

Q.—And was it in consequence of what you ascertained upon that inspection that this report was made? A.—Yes.

Q.—When you say in your report, "Premiums written," what did you mean by the word "written"? A.

—Including outstanding premiums, premiums on all risks in force which had either been collected or due to be collected.

Q.—That would be premiums available to the extent of the solvency of the policyholders? A.—Yes.

Q.—"Cash for annuities \$44,077.22"; this was a company that dealt in annuities as a branch of its business? A.—Only to a small extent.

Q.—These cash payments for annuities—would they be the payment of lump sums for annuities, or would they be in the nature of periodical payments? A.—They would be sums received by the company for annuities which they had granted.

Q.—In lump sums? A.—In single payments.

Q.—Interest received and accrued"; that would be interest available in respect of investment? A.—Yes.

Q.—Then increase in market value of the securities. I suppose you made some investigation which enabled you to say there had been that increase in the market value of securities, or did you? A.—That had come up in previous examinations, that increase.

Q.—You say that although you may not have made a specific investigation upon this particular occasion, you were satisfied of the accuracy of that by previous investigation? A.—Yes.

Q.—That gives a total on revenue and capital of \$966,931.39. Then comes the heading disbursements and reserves, losses paid and incurred \$102,419.45, paid to annuitants \$19,124.98, paid for surrender values—that would be on lapsed policies, would it? A.—Policies surrendered.

Q.—\$5, 975. 64, or a total of \$127,520.07, general expenses \$401,774.56, total payments \$529,294.63, reserve \$368,474.06. What reserve were you assuming on those figures; the quinquennial reserve calculated by your department, or the reserve calculated by the company? A.—The reserve calculated by the company at the date at which the statement was made up.

Q.—The date of the return? A.—Yes.

Q.—Adding to the reserve the total payments, you get a total of \$897,768.69, or a balance, showing excess of assets over liabilities to \$69,162.70, which you deduct from the \$200,000 paid-up capital, arriving at the result, impairment of capital of \$130,837.30. I am stating that correctly, am I? A.—Correctly, yes.

Q.—Your second computation is taking the figures for the seven years and

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four months on the usual cash basis; what do you mean by that? A.—According to the actual cash income received and the actual cash expenditure.

Q.—Under the head of income, you get "Cash received for premiums \$608,072.05. Is there anything missing there except outstanding premiums from the sums stated for premiums written in the earlier statement. This was \$647,000, but that included outstanding and deferred? A.—It would be the same adding the outstanding and deferred to that amount.

Q.—"Cash received for annuities" the same as in the other? A.—Yes.

Q.—For interest you only take in what has been actually received there, whereas you take in interest accrued in the earlier statement; is that right? A.—Yes.

Q.—You get then, at a total income \$921,000 as against \$926,000; then the cash paid for death losses, you omit there losses which have fallen in but not been paid; is that the difference between the two items? A.—This first item includes the outstanding and unpaid.

Q.—Cash paid to annuitants, the same. There is a little difference there, \$1,000. Is that an annuity which accrued but not been paid? That is \$18,124 and this \$19,124? A.—It is very likely an amount due; it is an annuity which came due and unpaid.

Q.—With your permission I will add in the first statement, paid to annuitants. "Including \$1,000 due but unpaid?" A.—Yes.

Q.—Then the cash paid for surrender the same? A.—Yes.

Q.—The general expenses are larger; \$401,774 and in this \$405,974; why is it larger? A.—There would be probably \$1,300—is that the difference?

Q.—No, it is more than that; it is \$4,200? A.—It would be the difference between \$500 which is in assets and for furniture, and \$1,300 due as general expenses.

Q.—That is the difference between \$5,500 equipment and office furniture in the statement as an asset, and \$1,300 due on account of general expenses in the liabilities in the return? A.—Yes.

Q.—Then you get a balance of that nature. Ledger accounts difference between the \$921,000 and \$527,000, total expenditure, of \$393,000, to which you add the other assets, \$51,000 odd; what is that? A.—Those are the market values of stocks and bonds over ledger assets.

Q.—That was in the other statement; it is an outstanding and preferred premium, the interest accrued and the market value of stocks and bonds over ledger value. Then you calculated the reserve in the same way. Outstanding losses, what are they? A.—\$4,500.

Q.—What is this? A.—There would be one or more death claims unadjusted but not resisted.

Q.—Then you arrived at the same impairment of capital but you have treated the matter first upon a cash basis of income and expenditure, afterwards adding ledger items; is that right? A.—What is that again.

Q.—You have arrived at the same impairment of capital in both statements? A.—Yes.

Q.—Your next statement with regard to the Royal Victoria is a division of the general expenses and a division of premiums received, the general expenses being commissions, salaries, sundry expenses, office furniture and taxes. The premium receipts are divided into first year premiums, renewal premiums and annuity premiums. Then we come to your report proper. The commission paid represents perhaps, a fair average of the commission disbursements in most of the life companies, say, five per cent. for renewal premiums and 60 per cent. for new premiums. Do you express that as your opinion to-day, that that is a fair average of commission disbursements in most of the life companies? A.—I have not had any occasion to change the opinion, but I did not give it as a—

Q.—You did not say that is what it ought to be, but that is what it is? A.—Yes.

Q.—As a matter of fact? A.—Yes.

Q.—Having regard to the method in which business is done; is that right? A.—That was given more as an illustration—

Q.—You have said this represents perhaps a fair average of the commission disbursements in most life companies; five per cent. for renewal premiums and sixty per cent. for new premiums? A.—Yes.

Q.—That you are stating as an average resulting from the method of operations of the insurance companies to-day? A.—Yes.

Q.—You are not pretending there to express an opinion, or are you, as to whether those methods are sound methods or not? A.—Not at all.

Q.—Your next observation is "The salaries are altogether out of proportion

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to the amount of premiums written, being about 16 2-3 per cent. of the total premiums collected on the life business"; but what foundation had you for the statement that 16 2-3 per cent. was out of proportion as representing salaries? Had you still in mind the operation of insurance companies, speaking generally? If I don't make the question clear to you, say so, because it is a good deal better for you to delay than to struggle with a question that has not been made plain to you? A.—Well, I don't know as I can make it plainer than it is stated in that.

Q.—Is 16 2-3 per cent. larger than the salaries paid by other companies, having regard to the amount of premiums? A.—I should say it was larger than the great majority of cases.

Q.—That it is larger than the average? A.—Yes.

Q.—One other question, and this is a question of your opinion; without regard to what other companies do by way of payment of salaries as a matter of principle, is 16 2-3 per cent. too much? A.—It is.

Q.—Can you measure it and say in your opinion how much it is too large? A.—I would not attempt to measure it.

Q.—Can you give me the other? What would you estimate would be the average, having regard to the custom of other companies? A.—I have not attempted to measure that item.

Q.—The sundry expenses, your next statement is, are also very much out of proportion to the premium income; what class of expenses are covered by sundry? A.—It would be travelling expenses, postage, telegraphing, express, printing and stationery, office furniture, medical fees, rents, advertising and sundry other expenses.

Q.—Do you criticize all those items? A.—I am not pretending to criticize.

Q.—You did criticize here. You said "The sundry expenses are also very much out of proportion to the premium income." Where you are speaking generally, or speaking with regard to the items which go to make up sundry expenses? A.—In making this comparison I was comparing the actual expenditure as compared with the premium income; it is merely a matter of comparison.

Q.—Is the item sundry expense, arising as it does, over the class of items you have told me, disproportionate to

the corresponding item in the returns of other companies? A.—I should say it was, taking the other as a whole.

Q.—Then you point out some specific instances. We pass from the sundry expenses; for the past year the commission paid amounted to \$23,000, the salaries \$17,000, the increase of the latter over 1903 being \$2,400. Was also \$2,200 for directors' fees included among general expenses? The corresponding amount last year was \$2,000. The new premiums for 1904 were \$27,553, and renewal premiums, assume five per cent. for renewal, would be 65 per cent. for new premiums, divided in the same way, to other miscellaneous expense, the result appears 64 per cent. for new and 5 per cent. for renewal. The only thing that occurs to me to ask you is why do you assume 5 per cent. for renewal, because whatever you assume for renewal will make all the difference in what is taken for new? A.—It was merely for convenience of dividing the expenses and arriving at an idea of how much—

Q.—I know that was the purpose you had in view no doubt, but I want to know why you took five rather than ten, five rather than seven, five rather than three? Was that because your experience as an actuary justified you in thinking that five per cent. was about right for renewal? A.—I was dividing the expenses that I thought might properly be applicable to renewal premiums into fifteen per cent., and roughly I took five per cent. as the amount that might properly be applied in commissions. I am speaking only in regard to one company now—

Q.—That is not perhaps quite answering my question. Here you are speaking of the ratio of commission to new and renewal premiums. Were you speaking, so far as my question is concerned, of anything else but the ratio of renewal commissions? Then, in order to arrive at a result about that you assume five per cent for renewal commissions. Why? Do you understand me now? Is five per cent., from your experience and from your observation, about what the rate of commission in respect of renewal commissions ought to be, or is found to be? A.—It is found to be.

Q.—It is found to be that? A.—As far as my observation has gone, I should say it is found to be about five per cent. It would vary, of course, in different companies and in different circumstances.

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Q.—I quite appreciate that, but I understand your answer to be that from experience and observation five per cent. is about what renewal premiums ought to cost in commissions; is that right? A.—I would not like to go so far as to say that is what they ought to cost. I took five as being what I found from experience was the probable cost as a rough approximation.

Q.—Then shall we qualify that as you qualified for me a previous answer, that that figure is held up by your experience of what does take place in insurance companies? A.—Yes.

Q.—Then the report goes on—(reads from report). Then you add "For a profitable business, the percentage of the salaries and miscellaneous expenses combined to the new premiums should not exceed 50 per cent." Is that the result of your experience, that if the percentage of salaries and miscellaneous expenses combined to the new premiums exceed fifty per cent. the business cannot be profitable? A.—It may be profitable.

Q.—But not likely to be? A.—Not likely to be very profitable.

Q.—You say in some companies the ratio is somewhat higher. (Reads report down to the words "Will enable the impairment more speedily to be wiped out") Is that your conclusion still? A.—My conclusion still.

Q.—"The remaining capital will be entirely wiped out in a few years"; that is your first conclusion? A.—Yes.

Q.—You were comparing the death rate of this company when you spoke of it as abnormally high? A.—With the amount at risk.

Q.—Were you comparing it with any other death rate, the death rate that you found by examining the returns of any other company, or anything of that sort? A.—Of course, I had the experience of other companies arriving at my conclusion in that respect.

Q.—Then you have an analyzed statement of, at all events, some expenses? Then what was done with that report? Perhaps I can help you. Was a copy of that report sent to the Royal Victoria by the superintendent? A.—That letter, I think, attached to it, will explain.

Q.—What was the date of your report? 25th March, 1905? A.—Yes.

Q.—Was it actually made on that date? A.—Yes. It was actually made on that date.

Q.—Did it slumber till the 23rd of December, or thereabouts, because on the 23rd December Robert McKay writes to Mr. Fitzgerald, "I was very much obliged to you for the papers," etc. I am wrong about the date. From March till November, was this communication pigeon-holed in the Department? A.—It was in the Department.

Q.—Not communicated to the company? A.—No.

Q.—And so far as you are aware, no communication made to the company about the matter? A.—During the examination the figures that I embodied in the report, or at least the greater part of them, I went over with the manager of the company.

Q.—That is Mr. McKay? A.—Mr. Burke.

Q.—Then with Mr. Burke during the course of your investigation you went over, and probably discussed a good many of these figures? A.—Yes.

Q.—Did you make him aware that you were about to make a special report on the subject? A.—I do not remember that I did.

Q.—You are not aware of any communication between the date of your report and November between the Department and this company, and apparently on the 16th November— A.—Repeat that.

Q.—You are not aware that there was any communication between the Department and this company from your report in March down to November, the date spoken of in Mr. McKay's letter? A.—I believe there was a private letter from Mr. McKay to Mr. Fitzgerald.

Q.—A private letter from Mr. McKay to Mr. Fitzgerald? A.—Touching upon other matters, and it was in a reply to that private letter that he sent Mr. McKay this report.

Q.—That would to my mind indicate that there was not any spontaneous communication from the Department to this company? A.—No.

Q.—Although your report was before the superintendent from the preceding March? A.—Yes.

Q.—In November you think Mr. Fitzgerald was put in motion by a private letter from Mr. McKay? A.—Yes.

Q.—Dealing with other matters? A.—Yes.

Q.—As a consequence of which, if I understand you, Mr. Fitzgerald sent Mr. McKay a copy of your report; is that right? A.—Yes.

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Q.—Was Mr. Fitzgerald's letter of 16th November to Mr. McKay also a private letter, or is that capable of being produced, or do you know? A.—As far as I recollect, it is a private letter.

Q.—Will you verify that for us, because if this correspondence is not of a private nature it would perhaps be desirable that it should be produced to the Commission. You will find out how that is, and see if there is any objection to the production of it, even if it is private?

Mr. McCarthy: Would it be fair to ask this witness whether he would have knowledge of what Mr. Fitzgerald would do after he got that report from him.

Mr. Shepley: I am much obliged to you. I will ask that question. Q.—Have you any knowledge of what Mr. Fitzgerald's course would be, what action he would take in consequence of your report? A.—I do not feel competent to answer that question.

Q.—Because you do not know what is the usual course or why? A.—I think that is probably the first report of that nature that I made to him.

Q.—Then you would say that there have not been enough instances to make a custom yet? A.—Yes.

Mr. Shepley: Anything else upon that, Mr. McCarthy?

Mr. McCarthy: No. The machinery is that he makes reports to Mr. Fitzgerald, and Mr. Fitzgerald takes action, and he would not know naturally what Mr. Fitzgerald did. There may have been certain action taken without his knowing it.

Q.—Is that not so? A.—Yes.

Mr. Shepley: Q.—Then Mr. Fitzgerald's letter, "I was very much obliged to you," etc. (Reads letter.) Then Mr. Fitzgerald apparently on the 27th November writes. (Letter read.) Now, with the exception of the private letters you refer to, are those all the documents you are aware of in connection with this particular matter? A.—Yes.

Q.—This particular report of yours? A.—Yes.

Q.—The time has not yet come when you have examined their reports for this year on the return of last year? A.—Not yet.

Q.—The next letter is about the Home Life Association; is that also a report of yours? A.—That is a report of mine.

Mr. Langmuir: Q.—Where is that company? A.—In Toronto.

Mr. Shepley: Q.—Are you able to tell me the date of this report of yours? Because, so far as I can see, there is not any date upon the copy I have—the date when you made the report. (Ex. 15 report and correspondence with the Royal Victoria. Ex. 16 report on the Home Life.) You point me to a date of the 20th May, 1905, being the date on which you made your report as to the Home Life? A.—Yes, that is right.

Q.—Again, let me ask you with respect to this report, are the observations upon which this report was based the observations that were made by you during your inspection pursuant to the return of 1904? A.—It was made during my inspection and return of 1904, and was at the request of Mr. Fitzgerald that I made a special report.

Q.—Mr. Fitzgerald requested you to make a special report. Was that by reason of your having made some verbal communication to him upon the condition of things you had found? A.—I could not tell the reason off hand.

Q.—You do not remember off hand? A.—No.

Q.—We will run over this; this is probably very much in the same line as the other, but I will try and make it as short as I can, covering everything in it. This association commenced business May 12th, 1902, on the assessment plan. Had this Home Life Association been the subject of returns during the previous years and of inspection? A.—Previous to 1904?

Q.—Yes? A.—Yes.

Q.—When did you first commence inspection? When did they first become subject to inspection? When did they first become bound to make returns? A.—I think since the company started in 1892.

Q.—It was formed on the assessment plan. I thought it may have commenced to make returns when the charter was amended. You think, however, it was from the beginning? A.—Since the beginning, yes, as an assessment company.

Q.—As an assessment company it was making returns? A.—Yes.

Q.—Did the returns that they made during these previous years disclose the fact that is stated here that the expenses were about equal to the total premium receipts? A.—Those figures were derived from the returns made during those previous years.

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Q.—The returns during those years would have indicated that circumstance; is that right? A.—Yes.

Q.—There is a typographical error here, I think; this should be 1892 instead of 1898? A.—Yes, it should be 1892 to 1898.

Q.—We will make that alteration, with your permission? A.—Yes.

Q.—(Reads statement down to the words "Net capital paid in 1898"). What does that mean? A.—That is capital stock received.

Q.—"Premiums thereon"—does that mean the stock was selling at a premium? A.—It was issued at a premium.

Q.—Then your fourth paragraph deals with what has taken place since the change to a regular life company? A.—Yes.

Q.—Was that new capital issued at a premium too? A.—At a premium too.

Q.—The cash assets have increased to \$231,214.86. Where does that come from? I do not quite follow it. You have given amounts of capital and you have given the amount of premiums of capital which is all cash received, I suppose, and you say cash assets have increased to that. Oh, I understand it now. The items were not put in the order in which I would expect to find them. What you say is that if you take the balance of cash remaining from the operations of the company as an assessment company and add the amount taken in as premiums you get this total, and as you find from their statement of the year 1904, their assets are \$231,000, you find that they have made over and above what went in \$49,516.63? A.—Yes.

Q.—In addition to the cash received there have been liens on policies. "Amount added to purchase price of the Home Life Building"—is that something Mr. Fitzgerald spoke about the other day, or perhaps you did not hear about that? A.—I probably did not hear about that. This building was purchased at a certain cost price, and the value was ascertained to be greater than that; so in the statements they show that amount.

Q.—Speaking of that as a return, in their return they put a value on the building larger than the amount they paid for it? A.—Yes, and that amount is modified later on.

Q.—\$158,000; that seems to be a large amount; was that the amount that was

added? A.—Yes, in the return for the 1904 which was first sent in to us.

Q.—That was before you had done any inspection? A.—That amount was subsequently reduced by the Department.

Q.—The total assets, including that appreciated price, amount to \$590,494.04?

Mr. Langmuir: Q.—Part of that purchase was leasehold. How was that accounted for—part of the building on leasehold land, at least that paid an annual ground rent. You were aware of that, of course? A.—What was the question?

Q.—The Home Life purchased that building; it was the old Freehold Building. It was not all freehold; part of it is leasehold. How did you arrive at the value of the leasehold? A.—The value that was returned to us is the value including the leasehold and freehold, the whole amount that the company own.

Mr. Shepley: When he gives us what he did in inspection I shall be glad to ask him if he made any distinction. Then the report goes on "Liabilities amounting to \$372,000," etc. (Reads report). If there had not been an appreciation in the price of the Home Life Building, if they had put that in at what it cost, they would have shown a loss upon their operations of \$108,592? A.—Yes, that is right.

Q.—"Excluding in the same way the amount written up on the Home Life Building, the increase in the impairment of capital, is shown as follows: 1899 \$11,000, 1900 \$22,000, 1901 \$37,000, 1902, \$63,000, 1903 \$77,000, 1904 \$108,000. I do not know that I quite grasp that paragraph. "It may be assumed that fifteen per cent. of the renewal business may be used in carrying on the business of the company." Do you mean the business—. The business in force at the beginning of the year under review.

Q.—That would be the beginning of 1904? A.—Yes.

Q.—And that the balance of the loading and all the loading upon the first year's premiums may be used for procuring new business during that year? A.—Yes.

Q.—You are not looking to the future but to the year that you are examining? A.—Yes.

Q.—"Of this fifteen per cent.," etc. (Reads) That is the way you did with the other companies? A.—Yes.

Q.—And you justified that as you did in the other case? A.—Yes.

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Q.—That assumes these ratios as constant. That makes a tremendous cost in all those years, culminating in 1895, total expense on new business as against fifteen for renewals in 1904? A.—Yes.

Q.—You observed that, of course? A.—Yes.

Q.—I suppose you are able, Mr. Blackadar, or you were when you were making this report, to adjust between net premium and loading in the cases you were speaking of, and when you say "the total available loading" you have regard to the normal net premium plus such loading as there must have been to carry this business? A.—Yes, I had in view the actual business necessary to carry the risk—the actual net premium in that case.

Q.—And then you were dealing with that as a constant, and finding the loading excessive? A.—Yes.

Q.—I will probably have to ask you some questions about that afterwards, but I want to deal with this particular matter now. As I understand it, immediately after the transaction by which they paid \$25,000 in cash, and gave the mortgage, there was a writing up at the end of that year for how much? A.—If I remember right, in the neighborhood of \$75,000. The exact figures are given there.

Q.—They wrote it up from \$176,000 to \$250,000. They did that at the end of the year in which the purchase was made? A.—Yes.

Q.—Then they leave it at that till the end of 1904, when they put on another \$85,000, raising it to \$335,000; is that right? A.—Yes, that is right, \$335,000.

Q.—Were those the valuations that you referred to in your report, Mr. Willis' and Mr. Whitney's? A.—They were the valuations referred to.

Q.—Then you go on to deal in your next paragraph with accrued interest, and so on. Then Grand Valley Railway bonds. (Reads from report.) What does that mean? A.—The purchase price.

Q.—What security was that lent on? What security was that \$18,000 lent on, or was it lent without any security? Was there any security for that loan? A.—Not that I am aware of.

Q.—A loan without any security? A.—If there had been a security I would have mentioned it and reported it.

Q.—How do you know it had been paid on the 31st December? A.—The cash was in the company's possession at that time.

Q.—Did you see it? A.—I saw what represented it.

Q.—What was it? A check of this railway company, do you remember? A.—I cannot recall now.

Q.—Just think for a moment. I want to see what shape that cash was in. I do not know that that will help you very much, because the return probably will not show in what shape the cash is? A.—The cash was in the bank at that time.

Q.—The cash was in the bank? A.—The bank book showed it.

Q.—The bank book showed the cash including this \$18,000? A.—Yes.

Q.—You are quite clear about that? A.—I am quite clear about that.

Q.—Then we will leave that for the present. "Further advances are now being made to the railway company from month to month." (Reads from report.) There was a loan again without security, but it was not a loan which appeared in the return, because it was made after the returns were sent in? A.—Yes, and I should judge from what I have written there that the company were receiving those bonds as they were being issued.

Q.—I thought you said they had invested \$37,000, securing \$44,000 par value bonds, and Mr. Firstbrook informed you the Home Life had taken up its full amount; you did not expect they would get any more than \$44,000? A.—They held the \$44,000, and it is possible they were getting more.

Q.—Your letter would not say so. "There is apparently no security for this advance." (Reads.) A.—Yes, that is right.

Q.—Before passing on to the next item, will you tell this: Do you keep yourself abreast of the investment powers of the various companies that you inspect? We have been told by Mr. Fitzgerald that there being no general Insurance Act under which companies incorporate with powers provided by the general Act, you have to look at the charter of each company to find out what its borrowing powers are in the first instance, and then to look at the Act of 1899 to see what powers exist under that. Now, I want to know whether you have in your mind when you are investigating these special powers, you have in mind their powers of investing, either under their charters or under the general Act? A.—I have a general idea of what their powers are, but there are only a few of the com-

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panies in which I inspect the securities.

Q.—That falls rather to Mr. Fitzgerald? A.—That falls rather to Mr. Fitzgerald, and he keeps abreast of the investment powers.

Q.—Do you know about this Home Life Association, whether it has any special powers or whether it falls within the Statute of 1899? If you do not remember I won't waste time over it? A.—I do not remember, but I am under the impression it falls in the general investment powers of 1899.

Q.—In the next paragraph you come to deal with a further investment of this company, relating to the Ontario Light, Heat & Power Company. (Reads clause.) Is there any statute that authorizes that kind of investment, if you can call it an investment? I suppose you would say that they might be justified in realizing their judgment in that way, but you go on in the next paragraph and say that the Home Life will dispose of the property at the very first favorable opportunity, as it is very improbable that they can operate it at a profit. What is your view about that? Do you think they had a right to operate it? A.—I think they had a right to operate it, considering the way in which it came into their possession.

Q.—I do not want you to be misled by the form of my question. Your report says that a joint stock company named the Ontario Heat & Light Company was formed by the Home Life; that would be a separate company from the Home Life itself. You appreciate that; a joint stock company called the Ontario Light, Heat & Power Company was formed, the officers of which were officers of the Home Life? A.—Yes.

Q.—Is that the company that is running the electric light, or is it the Home Life? A.—It is that company.

Q.—When you say it is being operated by the Home Life, that may very well be so; I do not know how it is; as a matter of reality are the accounts of the electric company being carried in the books of the Home Life? A.—No, not in the books of the Home Life.

Q.—There are separate books kept? A.—What I referred to there was that the Home Life was stockholders in it.

Q.—The officers of the Home Life were running it for the benefit of the Home Life and to get the Home Life out of the loss that was in it? A.—Yes.

Q.—“No evidence was furnished showing the present market value of the land.” (Reads) How did that item

appear? A.—Just in the way it is given there, Ontario Light & Power Company; total par ledger and market values.

Q.—The ledger value being intended to indicate the cost price? A.—Yes.

Q.—Then the next investment is cash with the Canadian Homestead Loan & Savings Company, \$20,000. “There is no security for this other than the receipt signed by the Ontario Loan & Homestead Company”; that is all you say about that? A.—Yes.

Q.—Your idea is that the Dominion Iron & Steel Company is not a company in whose stock or bonds the insurance company could invest? A.—No.

Mr. Tilley: Q.—This particular company? A.—This particular company.

Mr. Shepley: Q.—A company with powers given by the general Act? A.—Yes

Q.—Eighteen items, premiums on unpaid capital stock.” (Reads) What is that item of premiums on unpaid capital stock; that is what they expect to get— A.—When they call up the rest of their stock.

Q.—They did not by any accident include the unpaid stock at par in their assets? A.—Not at all.

Q.—But they thought they would have the premiums among the assets? A.—Yes.

Q.—That report is on the 20th May, and you add a postscript. (Reads postscript) What do you mean by the last insurance report? A.—The last one issued; that is, the business of 1904.

Q.—The one for the year in respect of which you were making this report? A.—Yes. That was a subsequent addition to the report after these valuations were made and the final figures put into the report.

Q.—Let us look at the figures in section 6 of the report, total assets and liabilities; you take \$60,000 off the total assets, and add to the total assets the difference in the Grand Valley Railway bonds— A.—And that would give that.

Q.—That would leave the capital impaired, would it not? A.—It would leave the capital impaired to a small amount.

Q.—Just one other question before I go on further. I want you to take the general Insurance Act, and show me the part of section 50, if that is the proper section, which authorizes this company to invest in Grand Valley Railway bonds? A.—Section 50, subsection B.

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Q.—I want to ask you one question about that section, and I will take your answer for the present at all events. I want to know to what, in your own construction, or in the construction placed upon this section by the Department to your knowledge, to what antecedents do those words refer, "Which has earned and paid regular dividends upon its ordinary preferred and guaranteed stock for the two years next preceding the purchase of such bonds and debentures." I want to know what the antecedent of those words is, according to your construction of the construction of the Department, if you are aware of it? A.—It refers to these words "Any steam railway," or "The debentures and bonds of any steam railway company."

Q.—You do not read that as relating to any of the other companies mentioned in subsection B? A.—We do not

Q.—Has the question as to whether that is the correct antecedent of these words ever been raised and discussed to your knowledge in the administration of the Department? A.—I could not answer that off hand.

Q.—Do you know of any? A.—I do not know of any.

Q.—Now, you made this report in May last, 1905; then what happened? A.—It was handed to the Superintendent to take what action he deemed desirable.

Q.—And Mr. Fitzgerald was to take it up? A.—Yes.

Q.—Apparently on the 30th October Mr. Fitzgerald having theretofore been in Toronto, and having paid some attention to the matters embraced in your report on that visit, wrote two letters, one to Mr. Patterson, the managing director, and the other to Mr. Firstbrook, the president of the Home Life Association. The one to Mr. Firstbrook is "As requested by you, I am sending you a copy of the memorandum"—that would be a copy of your report that we have been discussing? A.—Yes.

Q.—Then Mr. Fitzgerald wrote to the manager of the company. (Letter read) Did you know any more about the matter after that letter? A.—No.

Q.—You know of nothing else in connection with it? A.—No.

Q.—No further correspondence? A.—No.

Q.—The time for your making another inspection of that company has not yet arrived? A.—No. (Ex. 16).

Q.—What else did you bring, Mr. Blackadar? A.—That is all we understood that the request there calls for.

Q.—I see a memo. for documents, and then underneath "Matters for Mr. Blackadar." You have only dealt with the matters that are marked for Mr. Blackadar? A.—Yes.

Q.—Is it because these other matters are not under your control, or because they are expected to be got from Mr. Fitzgerald? A.—Those matters mentioned there are under Mr. Fitzgerald's control.

Mr. Tilley: He was not here at the time those other matters were asked for.

Mr. Shepley: Q.—Do you tell us, Mr. Blackadar, that these two reports covered all the matters that you have made the subject of written report in the course of your inspection? A.—Which I have made mention of, the expense ratio to income.

Q.—Are there other written reports that you have made as the result of your inspection, whether about the ratio of expense to income or not? A.—There are others in a few cases.

Q.—I think that you have misunderstood this memorandum. It says "Correspondence re expense ratio to income, and any reports made by Mr. Blackadar to the superintendent." You think there are other reports? A.—Yes.

Q.—You say now there are in a few instances? A.—Yes.

Q.—How long would it take to collect them? A.—I do not think it would take long to collect them.

Q.—If we adjourned now, could you have them when we reassembled? A.—Mr. Grant informs me that there are a number of them here.

Q.—Are they arranged chronologically?

Mr. Grant: Yes, the latest at the top.

Q.—I see the Home Life report with the two valuations referred to in what we have been going through is found in this little bound volume, temporarily bound volume, between those pages? A.—Yes.

Q.—Then I see you have in connection with that some literature in connection with the Grand Valley Railway Company, which we did not see in the copy we were examining just now. I think I will pass that for the present, and may have to come back to it again. I see the Royal Victoria report is also in this? A.—Yes.

Q.—Then in February, 1905, you ap-

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pear to have made a report on the Central Life Insurance Company. Here is another bound up marked February, 1905, signed A. K. B.?

Mr. Hellmuth: Perhaps they could be added to the exhibits already in, the Home Life and the Royal Victoria.

Mr. Shepley: I think we had better add these to the exhibits already in. This is an offer by the London Securities Company of \$100,000 for the Grand Valley Railway Company first mortgage bonds. Then there is what I may call a prospectus in connection with the offering of these for sale. That will be tacked on to the Home Life document, exhibit 16. And your Honors will permit me, after reading that prospectus, perhaps to come back to it again.

The Chairman: Oh, yes.

Mr. Shepley: Q.—This is a report made on the Central Life Insurance Company, February, 1905, that is in connection, as in the other cases, with your inspection consequent upon their returns for 1904? A.—No, this company has not yet or had not at that time made a return, had not been licensed; that was preparatory to them receiving a license.

Q.—Has a license been since granted to them? A.—Yes.

Q.—And they are now under license? A.—They are now under license; no inspection has yet been made since this return.

Q.—This is, I believe, a report you made for the purpose of determining whether or not a license should be granted? A.—Yes.

Q.—A report upon which action would be taken under the section I am about to call your attention to, under the provisions of the group of sections commencing with section 4 and running through to section 11 inclusive; in other words for the purpose of licensing the company you made a report. Is that automatic? Do you do that upon instructions, or do you do that as a matter of routine? A.—Only upon instructions.

Q.—Instructions being given you by whom? A.—By the superintendent.

Q.—Upon an application for a license being made by the company, you are instructed to report. Is that right? A.—That is the occasion for the instruction, when an application is made.

Q.—For the issue of a license to a company which has hitherto not had a license, you are instructed by the superintendent to examine and make a re-

port? A.—Not in every case, but I did in this particular case.

Q.—And that is not unusual that you should be asked to make a report when a license is asked for? A.—It is not unusual. (Report on Central Life, Ex. 17.)

Q.—This was not a special occasion, but an occasion which arose in the ordinary performance of your duties? A.—This was an occasion where this company had already been in existence for a short time, and was under a Provincial license, and was applying now for a Provincial license, being what we supposed not a very strong company, I was instructed to drop in and make an examination.

Q.—Where was the company carrying on business? A.—I want to go back to the previous question; I do not know whether I got it right. You asked me if it was customary to make an examination in every case of a new company?

Q.—Yes? A.—Well, it is not, because a great number of the companies come in after obtaining a Dominion charter, and may not have been in existence until they got the license.

Q.—I can quite appreciate that, but supposing you have a Provincial company, with a Provincial charter applying for a Dominion license, is it not customary to make an examination before granting the license? A.—I cannot say that it is customary.

Q.—At all events, for some reason or other, probably because this was not considered to be a very strong company, you were asked to make an examination in this case? A.—I was asked to make the examination in this case.

Q.—And you did go to make such examination? A.—Yes.

Q.—The company's head office was in Toronto? A.—In Toronto, yes.

Q.—Who were the officers of the company, for instance, the general managers? A.—Mr. Spence was the general manager.

Q.—Then was the course of the examination which you made, leaving out the question of your having an annual return to check, the same as you take when you go to make an examination in the ordinary case; in other words, did you pursue the same method of investigation? A.—I did not pursue the same method. I examined the assets, estimated the liabilities as nearly as possible, saw the method that they had used, and the evidence they could produce to verify their liabilities.

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Q.—Is that what you do substantially when you are dealing with a company which has made a return? A.—I do that, but in addition I check the various items that are entered in the return.

Q.—Leaving out the question of the return, which you do not have to check, was your course of examination in this case the same as the course you usually pursue? That is the question I ask you? A.—Yes.

Q.—“This company commenced business April 1st, 1901”—(Reads) Where did you get the net cash from premiums? From the published statements? A.—From the various published statements.

Q.—Did their books show? A.—Their books showed.

Q.—Did you examine the books? A.—I made a partial examination of the books

Q.—Did you examine the books sufficiently to find out whether or not they indicated that much cash had been received for premiums? A.—They indicated that.

Q.—Then you did examine to that extent? A.—According to the books, but I could not vouch for the accuracy of the items, because I could not make out really a close balance sheet.

Q.—I want to know why you could not make out a close balance sheet if you did not dip any deeper than the books. Will you state? Was it by reason of imperfections in the system of books? A.—If I had taken time to have searched out the few trivial errors which were not material in any way whatever, I could have got at the facts exactly.

Q.—As they were in the books? A.—Yes.

Q.—What you say is that you did not take the trouble— A.—I was not expected.

Q.—To eliminate errors which seemed to be of trifling amount, and not to affect the general situation? A.—Yes. You may say I was not required or expected to do that, but merely to get a general idea as to the standing and solvency of the company, the actual exact figures not being material.

Q.—If you had found something substantial, and which might possibly affect the solvency of the company, I suppose you would not have passed it over as trifling? A.—Not at all.

Q.—This item, premium capital stock—do the books show the stock had

actually been issued at a premium to the amount of \$12,500? A.—I presume so. Those are figures I obtained from the audited statements of the company.

Q.—What was the total capital of the company, do you remember? It does not seem to be stated here. Payment on capital stock is put at \$52,100? A.—That would have been the amount at that particular time.

Q.—You do not know what capital was authorized? A.—No.

Q.—You do not know how much capital had been authorized on which this was paid, how much of the subscribed capital this \$52,100 was? A.—Yes.

Q.—Then total receipts. (Reads) That was a pretty bad showing, was it not, just taking the total income, including premium on capital stock, \$60,707; and the amount of disbursements for claims and expenses was \$70,802? A.—It was a bad showing.

Q.—I should think it was a very bad showing? A.—This company was a young company, and had been to a large expense in getting into operation.

Q.—They had received \$43,000 in premiums and paid out \$63,000 in expenses? A.—Yes.

Q.—What was done with that report? A.—As far as I can recollect, the company were required to pay in that additional five per cent. of capital, whatever is mentioned there, and when that was done a license was issued. They are now under a license.

Q.—Then when the company did what it was proposing to do, call up five per cent. on the subscribed capital—we will get at the subscribed capital in that way—the subscribed capital would be \$150,000. The meaning of that, if I understand its significance, is that a company, whose capital is impaired, a company which has expended more in expenses than the total amount of premiums received, was granted a license by the Dominion upon making an additional call of five per cent. upon its subscribed capital, of course paying the deposit into the Department? A.—When I say that the additional capital of five per cent. was called I am merely stating from memory. I have not examined the statement. After this report was made it was in the Superintendent's hands, and I am not thoroughly aware what he—

Q.—I wish you would verify the statement that you have made tentatively, that upon the additional five per cent. being called up and paid in by the stock-

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holders, that a license would issue; that is what you believe took place? A.—That is what I believe took place.
(Adjourned for one hour.)

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AFTERNOON SESSION.

Examination of Mr. Blackadar (continued):

Mr. Shepley: I find, Mr. Blackadar, this document in the same bound volume which Mr. Grant has handed us. Will you tell me what that is? It is headed "Sun Life Insurance Company." It does not purport to be signed. A.—It is not signed and not dated. It is a memorandum of a change that was made in the blue book—which was printed in that blue book of 1904.

Q.—You mean covering the returns of 1904? A.—Yes, with a memo. of some other transaction that we wished to look into somewhat later on.

Q.—Now, in the first place, this is concerning the Sun Life Assurance Company, is that right? A.—That is right.

Q.—And in the second place, it is a memorandum which you prepared after your inspection, consequent upon the returns of 1904? A.—Yes.

Q.—And as I understand you, this was a memorandum which was to add to or subtract from or modify in some way the blue book which had been printed before your inspection was complete. A.—It was in explanation of a change that I had made in the blue book.

Q.—When you say you had made a change in the blue book, will you explain that? A.—A change in the statement that was sent by the Sun and which was incorporated in the printed statement in the blue book.

Q.—Which was incorporated in the printed statement, the return made by them at that point or some amendment made by you. A.—An amendment made by me.

Q.—An amendment was incorporated by you in the blue book and this is a memorandum in explanation of it? A.—Of how that was made up, yes.

Q.—Then whatever the first page of this memorandum indicates, you had already indicated by alteration in the return published in the blue book? A.—Yes.

Q.—Then we understand that. Now this is headed, "Sun Life Insurance Company. Memorandum of bonds and stocks written down or taken out of the accounts on 31st December, 1904." That means that you had written them down or taken them out of the accounts before those accounts were incorporated in this statement. A.—Not I.

Q.—But it had been done? A.—Yes.

Q.—Was it upon your instigation that it was done? A.—No, it had already been done by the company.

Q.—What had been done? A.—The writing down. The writing up.

Q.—How did the company come to do that after making the return? A.—It was not done after the return was made. I found that it had been done in the books of the company and the company had not deemed it their duty to make a return of it to us.

Q.—Well, then, if you will bear in mind, when I speak of the action of the company, unless I qualify it in some way, I always mean the return the company had made, the formal statutory return, that is the document I am thinking of. Now the statutory return that they had made neglected to take notice of these matters, although these matters, as you now tell me, were patent upon the face of their books. Is that right? A.—Yes.

Q.—Then, was it the inspection by yourself that developed the discrepancy between the statutory return and the company's books, did you find it out when you examined their books? A.—I found it out when I examined the books.

Q.—Then the return was altered in the Department, I suppose, as a result of what you had found out? A.—Yes.

Q.—Now the first item here under the head of bonds is Denver & Southwestern Railway Company, \$35,627. Was that an item which appeared in their return? A.—That appeared in their return.

Q.—It does not now appear in the blue book? A.—No. Let me explain what that item means.

Q.—I do not know whether you will explain it quite so readily in any other way than just by seeing if you can answer the questions as I put them. That indicated that the company had made an investment in the bonds of the Denver & Southwestern Railway Company to the extent of \$35,000 odd? A.—It indicated that in their books the ac-

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count of the ledger value of the Denver & Southwestern Railway Company bonds had been written down to the extent of \$25,627; instead of returning the ledger value at the cost of the bonds they had returned it, correctly enough, at the value at which they had written off those bonds. I do not wish it to be understood that it was a mistake on the part of the company.

Q.—I am not concerned at present with whether it was a mistake or not: I want to get at the fact with regard to it. In the first place, to begin at the beginning, the Sun Life Insurance Company had made an investment of certain funds in the bonds of the Denver & Southwestern Railway Company? A.—I can illustrate if I had the blue book of 1903.

Q.—While he is getting the book, is that right, that the Sun Life had made an investment of some funds which they had on hand for investment, in the bonds of the Denver & Southwestern Railway Company? A.—Yes.

Q.—When you get this blue book that you have sent for, will that show you what those bonds stood for when they were bought? A.—It will show what they stood them at the end of 1903 in their books.

Q.—Then in 1904 what did their books show, leave the return out of the question for the moment, as compared with 1903? A.—At the end of 1903 the books of the company showed that they owned \$50,000 par value of the Denver & Southwestern Railway Company, the ledger value of which was \$35,627.

Q.—When you say "ledger value," you mean what it had cost them? A.—It is supposed to mean what it has cost them, provided the company has not before written it down or up.

Q.—If there has been no writing down or up in the ledger, that ledger value will show what it cost? A.—Yes.

Q.—Do you happen to know whether this was what it had cost them? A.—As far as I can recollect, it was. I have no recollection of it having been written down before this time.

Q.—The par value was \$50,000, and that was the state of things at the end of 1903 in their books. And what was the market value shown at the end of 1903? A.—\$20,000.

Q.—That meant that the bonds were only worth two-fifths of their par value? A.—Yes.

Q.—That is in the market. Then in 1904 what did their books show? A.—

Their books showed that they had written off the whole of that amount of \$35,627.

Q.—Written it off completely? A.—Completely.

Q.—As being a bad debt? A.—Yes. No, not as being a bad debt, but as representing a present ledger value of zero.

Q.—I won't be too critical about definitions; we will say a ledger value of zero. I would call that a bad debt, but that is only a matter of phraseology. A.—It might have a real value nevertheless.

Q.—Then how was that item treated in the return of the company for the year 1904 made to your department? A.—That item is not entered in the return at all.

Q.—You say that the investment did not appear in the return at all? A.—Did not appear in the return at all.

Q.—And no corresponding investment of course appeared? A.—No.

Q.—Well then, so far as you have told me now, the return was accurate enough in treating this as not being an investment that was available? A.—Yes.

Q.—Then when you went to make your examination you discovered that that had disappeared by being written off? A.—Yes.

Q.—Or written down to zero. What did you do in consequence of that? A.—I made a memorandum that that was one of the items that should appear in this total amount written off ledger assets, provided in the synopsis of ledger accounts as given in the statement.

Q.—That was the point you took, that as there was a provision made in the form sent them for disclosing what assets had been written off, this assets should have been disclosed as a written off asset? A.—The amount should have appeared there. That was the ground I took.

Q.—That was the ground you took with the company on your examination of their affairs? A.—Yes.

Q.—Was that an authorized security or not, or did you make any enquiry about that? A.—I understood that all those securities were authorized under the charter of the Sun.

Q.—As distinguished from the general Act? A.—Yes.

Q.—Then I will not trouble you further about that. The next item is the bonds of the Dayton, Springfield and Urbana Electric Railway Company, \$5.-

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000 ? A.—That item appears, but the ledger value has been reduced by the \$5,000.

Q.—Where does it appear ? A.—It appears both in the statement, at the end of 1903 the ledger value appeared as \$125,620.60, and at the end of 1904 as \$130,620.60.

Q.—That is \$5,000 wirtten off ? A.—Yes.

Q.—And that was not indicated in the place allotted for ledger assets written off during the year ? A.—It did not appear there.

Q.—Then the criticism of that was the same as the criticism of the other item ? A.—The same, yes.

Q.—That it did not appear in the returns as something written off the ledger value ? A.—The amount did not appear in the total under that item.

Q.—Then the Columbus, London & Springfield Railway Copmany ? A.—The ledger value appeared at the end of 1903 as \$217,350.

Q.—And the ledger value at the end of 1904 appeared as \$137,350 ? A.—Yes.

Q.—Or a write-off of \$80,000 ? A.—Yes.

Q.—And similarly that did not appear in the proper place in the return as a ledger asset written down ? A.—Yes.

Q.—And that was your criticism of that also ? A.—Yes.

Q.—Then, not to take up too much time, is the same thing to be observed with respect to these stocks ? A.—To those stocks, the same.

Q.—There had been a writng down to the extent of the same opposite, a very large writing down in the ledger, but it did not appear in the return to you ? A.—It did not appear under this particular item in the return to us.

Q.—Under the same particular item ? Now these sums are some of them very large; for instance, take the Columbus, London & Springfield Railway preferred; apparently \$154,000 had been written off during the year ? A.—Yes.

Q.—Cornwall Street Railway \$100,000, and the Dayton, Springfield & Urbana Electric preferred \$125,000, all written off during the year ? A.—Yes.

Q.—A very considerable shrinkage in assets one would think. Did that writing off at all affect the ostensible position of the company upon its statement of affairs ? A.—It did not.

Q.—Why ? A.—It did not necessarily show that the market value of those particular bonds had deteriorated to that amount.

Q.—But it showed that the amount that they had invested in them had disappeared to that extent according to the computation of the values, did it not ? A.—It showed that what they had put in the ledger value, or the amount invested.

Q.—But you told me, apart from other questions, that the ledger value was what it had stood them ? A.—What it had cost them.

Q.—And do you know of any cases in which writing up had been done ? A.—No.

Q.—You do not recollect any ? A.—No.

Q.—Then it would seem to me, with my limited knowledge of the subject, that the Sun Life that year wrote down or wrote off assets to the extent of \$558,000 ? A.—That is right.

Q.—Then what did they have on the other side of the account ? How did they remedy that so as to make their solvency appear just as undoubted as it was the year before ? A.—Whereas they had had some assets which had apparently shrunken in value, they had other assets which had apparently increased in value.

Q.—And did they write up on other stocks they held the whole of that \$558,000 ? A.—They did.

Q.—What were they ? A.—On one item of Mexican Light & Power Company stock, which had cost them nothing according to their ledger account of it, they had entered a value of \$40,000.

Q.—Although so far as their ledger account that year showed, they had been made a present of them ? A.—As far as the ledger account showed.

Q.—Then were you curious enough to investigate and see whether they had really got them as a gift or whether they had paid something for them when they originally acquired them ? A.—They had paid nothing for them other than what they had paid for the bond which they had acquired along with them, and the amount paid out for both the stock and the bonds was entered in the ledger under the amount paid out for the bonds.

Q.—That is they had bought bonds which carried with them stock ? A.—Yes.

Q.—And they had put the whole price on the bonds and carried the stock in as not having cost them anything ? A.—Yes.

Q.—That was interesting as a matter of bookkeeping. What did they do with the bonds when they wrote up

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this stock of \$40,000; did they write down the bond, too, or did they own the bonds then? A.—They did not necessarily own the bonds then. They may have sold them. That is, it was not necessary that they should hold the bonds.

Q.—Does their return show whether they still held the bonds? A.—The statement would apparently show that they had sold the bonds.

Q.—I do not want to delay the examination. I would like you to see if you can find out for me before your examination is finally concluded, when and for what they purchased these bonds and this stock, and when and for what they sold the bonds. Well, then, whatever the fact may be as to that, they still had stock of the Mexican Light & Power Company on hand and they wrote that up to a ledger value of \$40,000 from nothing? A.—Yes.

Q.—Then the next writing up was \$45,000 of the Georgia Railway & Electric. How was that? A.—That stood in the same position. They had \$100,000 of the stock which in their ledger stood them at nothing and now stands them at \$45,000.

Q.—Was that also stock incident to a bond-holding par? How did they come to have that stock for nothing? A.—I understand that all these stocks were obtained through bond-holdings, bond purchases.

Q.—Does this show that they still had the Georgia bonds on hand or had they disposed of those too?

Mr. Hellmuth: They had some Georgia Railway preferred stock. The common may have gone with the preferred. A.—That is right; it may have gone with the preferred. I don't see any bonds.

Mr. Shepley: Then it may have been an incident to the preferred? A.—Yes, it may have been bought in conjunction with some other similar transaction.

Q.—Then there is something we can get at tangibly. When they write up the Georgia Electric common to \$45,000, did they write down the ledger value of the Georgia Electric preferred? A.—Not at all.

Q.—They did not write it down at all? A.—No.

Q.—Left it as it was. Then the next item is the Illinois Traction Company, \$473,933.57. A.—That was also stock acquired which was in their books at zero, or at least a portion of it at zero, and which had been written up by that amount, \$473,933.57.

Q.—Can you show that to me here? (Refers to blue book.) A.—A portion of that was stock which stood in the company's books at zero and which had been written up to the amount of \$473,933.57. A.—That was also stock that was purchased before the statement was made up and which cost them in account value \$352,000, making up the total of \$826,933.57, given in the return.

Q.—Then to put that in a concise form, they had the Illinois transaction of a par value of \$1,315,000; they had paid for it \$353,000. Is that right so far? A.—That is right.

Q.—And that \$353,000 was all they had carried into the ledger asset? A.—Into their ledger assets previous to adding the—

Q.—Then in 1904 they added \$473,933.57 to that, making a total of what is shown here as the ledger value of \$826,000 odd? A.—Yes.

Q.—And I suppose it is manifest that that sum was arrived at and made the exact sum so as to make these writings up balance all the writings down that we have asked about? A.—That was it.

Q.—It was not made with reference to any moneys paid out or with reference to any exact value of the stock in the market or anything of that sort? A.—No.

Q.—It was made to balance? A.—Yes. Merely an adjustment of ledger accounts.

Q.—The result of that was that they had precisely the same assets that they had had the year before; they had shown a shrinkage in certain bonds and stocks to the extent of half a million of dollars, and they showed a corresponding appreciation in those stocks to the same amount? A.—To the total account value held at the end of the previous year they had written on that \$558,000 and written off \$558,000.

Q.—The result being that they had precisely the same assets that they had before? A.—Well, not precisely the same assets.

Q.—As far as this that we are talking about is concerned, they had precisely the same thing, precisely the same bonds and stocks? A.—They had, yes, but you said as at the end of the previous year. They had precisely the same as they had before the writing up or down was concerned.

Q.—That is what I meant. That is better than the way I put it. Before and after the writing up they had precisely the same assets and they took off

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half a million from certain of them and put that half million on others of them? A.—Yes.

Q.—Now before we deal with the memorandum that you have prepared upon the subject, I would like to ask you if you looked for any means of their justifying or criticizing this writing down and writing up with reference to the values of the assets themselves? A.—I don't know just the scope of your question, Mr. Shepley.

Q.—Perhaps it was not well put. Supposing any man has a block of stock or bonds, I suppose there is a way, if you have access to it, of finding out what the value of that is on any given day, what it will fetch in the market, for that is the value of it? A.—Yes.

Q.—And no matter whether you wrote zero or a million dollars opposite that block of stock or bonds, it does not alter the market value one whit, does it? A.—No.

Q.—Then when you say half a million of assets written off and half a million of assets written up to correspond, were you in a position, or did you take means to put yourself in a position to ascertain what the market value of those bonds was? A.—We certainly endeavored to get all the information that we could as to what the market value was.

Q.—What did you do by way of doing all you could to get information? Because that is something that interests us very much. Did you make any inquiries outside of the Sun Life office itself? That is an easy question to answer, is it not, Mr. Blackadar? A.—We made inquiries—well, I hardly know how to answer that.

Q.—I cannot make it any simpler. Did you make any inquiries outside of the officers of the Sun Life Insurance Company itself? Did you go beyond them for information upon that subject? That is not a hard question surely? Can you answer it in that way? As I understand, it was you who made the examination yourself and of course you can tell us what you yourself did by way of inquiry into the market values. A.—I was assisted in this by Mr. Fitzgerald in making the examination.

Q.—You know, of course, what you did? A.—I had with me all the financial papers that I thought would bear on the question.

Q.—What do you mean by financial papers? A.—Papers containing quotations and descriptions of these stocks.

Q.—Can you tell us what papers they were and where you got them? A.—The Insurance and Finance Chronicle of New York. We also had the Investors' Review, and in addition to that I myself on one occasion I know made inquiries from a certain individual.

Q.—Where? Have you any objection to state? A.—No, Mr. Shepley. If you will allow me a minute I will explain. You are asking me if I had made any inquiries outside of the Sun officers?

Q.—Yes. A.—There was a gentleman—I am not sure where he was from; I think it was Philadelphia—called upon me in the Windsor Hotel in the afternoon that I left. I inquired of him very carefully as to the market value of bonds that he was buying, or dealing in rather, and relating to some of the securities held by the Sun Life.

Q.—Some of these securities we have been speaking about. A.—Yes. He gave a very flattering account of the particular properties under discussion, and as to their market value.

Q.—Point out which of these bonds and stocks he was conversant with and talked to you about? Denver and Southwestern? A.—I might say they were not bonds mentioned in this particular list. They were stocks held by the Sun.

Q.—But this list is what is under discussion. A.—Oh, then I will take that back. I did not make any inquiries from outside sources as to these particular stocks.

Q.—Not even as to the stocks which had been written up by half a million dollars? A.—As to the bonds belonging to that company, I made inquiry.

Q.—Which ones? A.—The Illinois Traction Company as to the bonds and the property generally, I ascertained from him.

Q.—These are not bonds. This is stock. A.—That the market value put upon that particular stock that had been largely written up was equal or in excess of what it had been returned by the Sun.

Q.—Then was that the only one of these companies that he did give you information about, the one that was written up, \$473,000? A.—That was the only one of these particular ones.

Q.—These are the only ones I am asking you about. That is the only one he gave you information about and he came to you after your inspection and before you left Montreal? A.—Yes.

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Q.—Came to the Windsor Hotel on purpose to see you so far as you know?
A.—So far as I know.

Q.—Did you know him before? A.—I did not.

Q.—Did he tell you who sent him?
A.—Yes.

Q.—Do you mind telling me who it was? A.—He was introduced by, I think, one of the clerks or officers of the Sun.

Q.—He was said to be from Philadelphia? A.—Yes.

Q.—Is he a man whose name you know in financial circles otherwise? A.—I am not certain, but I think it was Mr. Christianson, some such name as that.

Q.—Whatever his name was, was he a man whose name was known to you in financial circles apart from this single interview? A.—I think so.

Q.—You have known of him before?
A.—No, I have not.

Q.—Have you known him since in financial matters? A.—I have seen his name mentioned since.

Q.—In connection with matters of the Sun Life. A.—I am not certain where I saw his name.

Q.—This gentleman came to you and was introduced to you as a gentleman from Philadelphia, I think you said, by an official of the Sun Life, after you had made some question about the value of this stock; you had a single interview with him and he spoke in roseate terms of the prospects of the Illinois Traction Company, and that is about the whole thing, is it not? A.—Yes, he gave me a great deal of information regarding that company.

Q.—What was the nature of the information? For instance, I suppose he did tell you what the charter powers of this company were, what the company was incorporated for, what its purposes were, did he tell you that? What is the Illinois Traction Company, what did he tell you it was? A.—I am not able to recall that conversation.

Q.—And apart from the papers that you speak of, you got no information from anybody else except from him and the officers of the company? A.—Officers of the company.

Q.—So much for that. Now you made a memorandum upon that. (Reads exhibit 18.) You seem to have ascertained that there had been some sales in January. A.—Apparently, by the books of the company.

Q.—That is the company had been selling some of this stock to its own

directors or they had been purchasing from the company? A.—Yes.

Q.—At prices less very considerably than the price which they had entered as the market value. A.—The books apparently show that.

Q.—Did you make any other inquiry about those transactions? A.—Before answering that let me explain that matter of making inquiries as to the market value. That was not done at the time this memorandum or before that memorandum was written, but during the completion or the continuation rather of the inspection in November and December last.

Q.—Then if I understand you, the interview of which you have spoken at the Windsor Hotel with the gentleman from Philadelphia named Christianson did not take place until after you had made this memorandum? A.—No, it was during the continuation of the inspection which was interrupted owing to my illness in December, the last day before leaving. I was going to add that the inspection at which Mr. Fitzgerald was along with me was interrupted on account of my being taken seriously ill in December and I had to return home.

Q.—I do not know that I will ask you any further questions about that at present. I will put that memorandum in. (Exhibit 18.) We will pass on to the next document. A.—I would like to explain, Mr. Shepley, that my hesitancy in answering these questions is not from a desire to withhold anything or not to answer these questions you ask. My brain quite refuses to act, and also my tongue. I claim consideration on that account.

Q.—I quite accept that, Mr. Blackadar, and I hope you will understand that I want you to take time.

The Chairman: It is well that you should make that explanation, Mr. Blackadar. We accept it also.

Mr. Shepley: I want you to feel that I am desirous of giving you every opportunity. I do not want you to think that I am hurrying you. I want you to give the explanations as clearly as you can make them. I think I will take up now a memorandum which introduces a new name. This seems to be in the first place a memorandum which has your initials to it, and it is headed "North American Life."

(Mr. J. A. Paterson, K.C., is present on behalf of the North American Life).

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Then there is a valuation signed by Mr. Galley and then there is apparently a letter from Mr. Fitzgerald to Mr. Goldman of the 14th February, 1906. This is a comparatively modern document. This is upon the returns of the North American Life for the year 1905. Is that right? A.—That is right.

Q.—Is this memorandum in your handwriting or is it copied? A.—It is in my handwriting.

Q.—And I see it is stamped with the stamp of your Department of the 14th of February, 1906? A.—Yes.

Q.—Does that mean the date at which you submitted it? A.—The date at which it was received at the office and stamped.

Q.—Then your inspection of the North American Life this year was earlier than the date fixed for the filing of the return? A.—It was

Q.—The North American Life was in early with its returns? A.—Yes.

Q.—Now your first head in this report, which will be exhibit 19, is "investments in securities other than Canadian." Will you tell me first, what is the motive underlying that heading, why have you made a list of investments and securities other than Canadian? A.—In order to bring before the Superintendent of Insurance, and according to his instruction, such points in the statement as I thought he would be interested in.

Q.—Was it intended to indicate in any way that you had some doubt with respect to the propriety of these investments because they were in other than Canadian securities? A.—Not at all as to doubt as to the securities.

Q.—As to the power you did not feel any doubt? A.—I merely wished to put before the Superintendent certain facts gathered from the statement.

Q.—Won't your recollection carry you any further than that? Why start with that heading? Why separate them, so to speak, from the general body of investment; was it just simply because they were not Canadian? A.—Well, there are certain points in that statement that I wished to bring before Mr. Fitzgerald's attention, and I don't know as I had any reason for arranging them in the particular order in which they are given in the statement at all.

Q.—I do not care about the particular order, but giving them a particular heading, "Investments in securities other than Canadian" is the first heading and

you commence with "mortgage loans." The mortgage loans are all made, if I am right in following this statement, in St. Paul. A.—If you repeat that question again; I do not want to pass over or not answer any question you are asking.

Q.—I did not know whether you may have felt in your mind, perhaps, this, properties in St. Paul are not properties that we can very well check the values of? A.—No, not at all. The idea I had was to gather together in one statement all the securities owned by the company that were held outside of Canada or that were on property situated outside of Canada.

Q.—Then you have here a total of six mortgages aggregating \$116,901, all apparently upon St. Paul property. Were these mortgages all accompanied by valuations. A.—I have not examined.

Q.—You have just taken these items out of the annual statement. A.—Yes. If I remember rightly, Mr. Grant was with me and examined those, such of them as were new to the ledger accounts, not those that were not.

Q.—You do not mean to say that they were not in fact examined, but you say you did not make the examination personally? A.—I did not make the examination personally but the items were examined.

Q.—Then you have "Bonds of United States Corporations." You have the Detroit United Railway, the Chicago & Milwaukee Electric, St. Croix Power Company, to an aggregate of \$569,000 book value. Are you able to remember that there had been no writing up or down, does that mean what they paid out? A.—That is what they stood, the book value at the end of the year, I cannot state off hand without looking at the statement, whether there had been any writing up or down.

Q.—That \$569,000 was the book value as against a par value of \$583,000. A.—Yes.

Q.—Then your statement goes on to say, (reads). They held \$400,000 par value of the bonds of that company; then was this stock, \$40,000, appendant to that? A.—They were bought in connection with that as far as I understand.

Q.—And all the book value carried into the bonds and none carried into the stock? A.—That is it.

Q.—Then "C", bonds and stock, loans on United States securities. (Reads.) "Ninety-eight shares Mackay prefer-

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red." What is the Mackay Company?
A.—That is a foreign corporation.

Q.—What is its business? A.—I think it owns different cable companies.

Q.—On which \$4,000 has been loaned. Do you know what the value of those loans was? A.—Merely loans on the securities of those stocks. Call loans.

Q.—Do you know whether any of them were what is known as margin loans? A.—Well, they were margin loans. The par and the market value were in excess. They were loans on margins, that is there was a margin of market value.

Q.—You mean there was a margin of security over and above the amount loaned. That is not what I mean. Do you know whether these were loans obtained by people who were carrying the stock on margin? A.—Oh, they were loans, I have no doubt, to brokers. So much money loaned and so much stock deposited.

Q.—Did you see the bonds themselves? A.—Oh, we saw the bonds, yes, we saw the securities.

Q.—Saw these very bonds? A.—Yes, saw those bonds and that stock. The company held those securities.

Q.—Then they had \$277,300 out on loan on these bonds and stocks. Then loans on the company's policies \$11,601, and cash in bank \$1,208. That looks like a very small amount of loans on policies. A.—Well, they have not very many policies; they have not been doing business for very long outside of Canada, and thus they have not a very large amount loaned on these policies.

Q.—On policies held in the United States. Then "Reinsurance Reserve" put in in red ink. Is that your writing? A.—No, that is not my writing. That is Mr. Grant's, I think.

Q.—Mr. Grant has written, Re-Insurance Reserve, Foreign business, December 31st, 1905, \$369,969." What is the significance of that to your way of thinking as compared with the amount of the foreign investments? A.—That I have no doubt was put in for Mr. Fitzgerald's guidance, probably under his instructions, to guide him in the action he was taking.

Q.—Supposing it was put in for your guidance what would it have indicated to you? A.—It would have indicated to me that the total assets, as I have made it up in foreign countries, was that much, \$976,000, and the reserve only \$369,000.

Q.—Then would it be fair to say that the foreign investments were out of proportion to the reserve upon foreign

business. A.—It was very much larger, yes.

Q.—So much as to be disproportionate? Perhaps I will get it in another way. Is it your view that this question has anything to do with the statute which fixes the ten per cent. upon the amount to be maintained for the foreign reserve? A.—Well, in making up this statement, I was merely getting the facts and leaving it to Mr. Fitzgerald to deal with as he saw fit.

Q.—You have the statute there? A.—Yes. Of course, it would indicate that that was very much greater than the additional ten per cent.

Q.—We will look at the statute for a moment, so that we can see whether it does concern this question or not before we go any further. This is what the statute says, section 50, subsection 4. (Reads.)

First, is this North American Life Company required by the law of the foreign country to maintain investments there to any extent? A.—Yes.

Q.—To what extent? Would they have any right as matters are with them to exceed \$100,000 except for the purpose of maintaining a reserve under subsection 4. Is that question plain to you? They cannot go over \$100,000 unless it is necessary to the maintenance of a reserve in respect to the foreign business under subsection 4, unless they are required by the law of that country to that with this company, does subsection 4 apply to this company in your view, Mr. Blackadar? A.—I think that subsection 6 probably deals with that.

Q.—That is where it does business elsewhere than in the United Kingdom and the United States. That is not this company is it? A.—I think so.

Q.—Where is it doing business besides? A.—I can give you that. The company does business in the States of Illinois, Maryland, Michigan, New York, New Jersey, Pennsylvania, Washington in the United States of America, and the Bahamas and Bermuda.

Q.—Section 6 provides (reads): Does this company do business in England? A.—I think not, unless it has started lately.

Q.—Do you know what its Bahama and Bermuda policies amount to, what the reserve upon those would be? A.—I have not any separate return for that.

Q.—Well, probably Mr. Grant, when he said foreign business, included all that? A.—I think so.

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Q.—Then the reserve would be \$369,969 in respect to the foreign business, and do you or not understand by the requirements of section 50 that the foreign investments should not exceed 10 per cent. over that reserve? A.—Well, these are questions that I do not pretend to interpret. There are certain duties that Mr. Fitzgerald looks after almost exclusively, and if you could leave such questions to him I think he would be able to do more justice to them.

Q.—Perhaps I shall ask him about these questions also; I have no doubt that I shall if we have the good fortune to meet again, but what I want to know now is whether or not you, because you are an expert in insurance, and you know this act very well, I want to know your view as an officer of the department, do you conceive that that ought not in the circumstances of the North American Life to have been exceeded by 10 per cent. in the maintenance of foreign investments? A.—That is the way I understand it.

Q.—Then the statement goes on (reads). Now just show me from the company's statement what you have spoken of here as the omission of these two latter items of American investments and the insertion in their place of the New York insurance department deposit? A.—I have not the return for 1905. That can be obtained.

Q.—Was the return for 1904 the same? A.—It was in the same form.

Q.—Perhaps that will do for my purpose if you say that the return for 1905 was in that respect in the same form. I just want to see the form of it. A.—On p. 300 of the blue book for 1904, "The assets as returned contained the loans on real estate and loans on policies and the book value of the city of Halifax bonds on deposit with the New York insurance department. Also cash in banks.

Q.—Amounting to \$261,298. Now then, what ought to have been there instead of that? A.—I am not attempting in this to state what ought to have been there.

Q.—No, but what would have been there if they had been enumerating these two items as assets outside of Canada? In the first place, I want you to show me the heading which would cover assets or investments outside of Canada. Is this it here, "Business done

outside of Canada, assets as per ledger account." These two were omitted altogether, bonds \$277,000 and the stock and bonds \$569,000, and instead of that you have this deposit with the New York insurance department? A.—In that respect I am endeavoring to give in this statement what I consider the actual securities on property outside of Canada. In the statement that the company send in, a different interpretation is placed upon what is meant by assets outside of Canada.

Q.—They have said, business done outside of Canada, and then under that, assets as per ledger accounts and these are the statements of that? A.—No, these loans are made to parties in Canada and the securities held in Canada, although the stocks and bonds themselves are in foreign corporations. The same with the stocks and bonds owned. They are held at the head office of the company in Canada, but on securities owned outside.

Q.—Then I think we understand that. At all events in the statement they are not enumerated among investments made outside of Canada? A.—No.

Q.—Then where does the New York deposit come in in the statement of the year we are considering, is that there also? A.—That is here, yes, in the same form.

Q.—Does the state of New York seem to be the only one that requires a deposit from this company? A.—That is apparently the only one.

Q.—That is the only one that their return indicates? A.—Yes.

Q.—Then you add, "as was done last year" (reads). How do they come to own a seminary in New Brunswick, is that a foreclosure of a mortgage or is it a building that they have owned and rented for a seminary? A.—Those items Mr. Fitzgerald has kept track of exclusively and he can give particulars.

Q.—Then comes Mr. Fitzgerald's letter of the 14th of February to Mr. Goldman (reads). Do you know of any reply to this? A.—I am not aware of any.

Mr. Paterson: There is a reply, Mr. Shepley, of March 3rd. I have a copy of it. You may verify it after.

Mr. Shepley: Perhaps if you will let me take the copy so that I may conclude the subject with this gentleman. If you give it to me as a copy I will take it as such (reads letters of March

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3rd, 1906, to Mr. Fitezgerald). I will add this to make Exhibit 19 complete and Mr. Grant will verify that as a copy afterwards. It is a logical part of this exhibit. Here is another of the North American Life on the return for the year 1904. This information of the preceding year, a report signed by Mr. Blackadar (reads Ex. 20). Perhaps you can show me just what you mean by that? A.—In this particular item, the synopsis of ledger account, items of stocks and debentures written up was omitted from the statement as originally sent in.

Q.—The blue book then contains that \$24,665 which was not included in the return? A.—Yes, page 298 of the blue book.

Q.—Then did you observe, "written off agents' advances \$24,665." What are agents' advances? Amounts due by agents? A.—They are amounts of money advanced to agents to be earned by way of commission on business that they take in or renewals on the business, the premiums they send in.

Q.—Do they sometimes find under those heads money that have been retained by agents that ought to have been returned? A.—Well, not so much that as moneys that have been advanced to agents before they have been earned.

Q.—Does the writing off of that indicate that agents have been forgiven a debt of \$24,665? A.—It would indicate that. Well, no, I beg pardon. I don't mean to express that; that amount might be written off as far as the return made to us is concerned, but still the company may have a claim against the agent.

Q.—Perhaps it would be among the bad and doubtful debts? A.—We consider them bad and doubtful, but the company may possibly consider them good and try to collect them in the future.

Q.—Is the item advances to agents an item that is found year by year in these returns? A.—In a great many of them, but not all.

Q.—Well, is it clear that that \$24,665 written off was the motive for the writing up of the same amount in the bank stocks? A.—The two transactions are so closely connected that it was probably due to that reason. The company considered that this was in the nature of a ledger asset that was written off, and it could be properly offset by writing up another ledger asset.

Q.—Now that memorandum goes on to state, "Upon further examination of the books of the company" (reads to "commission account.") Is that the same thing as agents' advances? A.—It is a similar item.

Q.—You mean the same thing, when you say first commission account you mean the same thing as written off agents' advances, do you? A.—It would be in that. The money that was advanced had been written into commission account and was merely transferred.

Q.—"Mr. Goldman's explanation was." (Reads.) That would indicate that Mr. Goldman's idea was that they were never going to get it back from the agents; that it was a lost asset as far as that was concerned? A.—Yes, he considered that it was not sufficiently good to be put among the assets of the company.

Q.—And he did not think it was under the circumstances an item that should be treated as part of the expenses of that year? A.—No.

Q.—"As this money was advanced to the agents during the year" (reads to) "have accordingly placed it there." Did it stay there? A.—It stayed there. This report was made in consequence of Mr. Goldman's contention that it was quite proper to have it treated as a writing off of a bad asset rather than as an expense. I told him I would submit my view to Mr. Fitzgerald, and if approved it would go in with the statement as I had corrected it.

Q.—Then your view was accepted by Mr. Fitzgerald? A.—It was.

Q.—In February, 1905, you made a report on the subject of the Imperial Life Insurance. Apparently very much of the same thing. (Reads Exhibit 21.) The first is an item very much like the other? A.—Yes.

Q.—But I do not understand this for the moment. What is that about the "basis of reserve being misleading"? A.—"State table of mortality and rate of interest employed in computation or where an estimate only is given state the basis of such estimate." In the statement that has been put in, based on the institute table, interest at 3 1-2 and 3 per cent. I objected to the 3 per cent. being in there.

Q.—Will you translate that into the vernacular for me, "Three per cent. for insurance"? A.—There are two classes of business done by this company, the assuring of lives, that is the

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great bulk of the business. The company also has a few annuities on its books. It was stating the basis of the valuation of the policies, of the assurances, that that was in there. The basis for their computation of the annuities was upon a different table.

Q.—Well, then, the 3 per cent. for assurance ought to be struck out? A.—The 3 per cent. the "3" ought to be struck out.

Q.—How does that come to be put in, because they were trying to bring in in one sentence the two different methods of computation? A.—Well, if it was put in in that way it would be apt to mislead the public, that they were using a lower valuation basis than the 3 1-2 per cent., which was really the valuation basis employed in the valuation.

Q.—There was a 3 per cent. computation, but that was in respect of the guaranteed surrender value at the end of the investment period, and had nothing to do with the present application of the company with respect to the reserve, which was calculated at 3 1-2? A.—At 3 1-2.

(Adjourned to 10 a.m. on Wednesday, 21st March.)

SEVENTH DAY.

Ottawa, March 21st, 1906.

The Commission resumed at 10 a.m. Examination of Mr. A. K. Blackadar by Mr. Shepley continued:

Q.—I understand there was a matter about which you were interrogated yesterday, as to which you wish to add something. You thought there was some interruption to an answer you made with respect to some question asked about the Sun Life. You are, of course, entirely at liberty to add anything further that you desire to say. Am I right about that? Do you desire to add something to an answer you made me yesterday? A.—It was not in respect to an answer, but the memorandum or the report that you read was one that was made after a partial inspection of the company, and it contained a remark at the end of that memorandum to the effect that the books of the company would indicate that several lots of bonds were sold in January at a lower value than what was entered in the company's return as the current market value. Before that subject was finished I was desirous of explaining how that matter arose, how

it was that the company came to apparently sell the stock at a lower price than what it was entered in the return as having been paid for.

Q.—Then you are quite at liberty to go on and make whatever statement about that you think proper. This is the document itself; perhaps this will help you, and the clause is at the bottom of that page? A.—The \$580,000 Illinois Traction Company's preferred stock was purchased near the close of the year in exchange for \$353,000 par value of bonds of the St. Louis & Springfield Railway Company and the Illinois Central Traction Company, which stood in the company's books at about 85, and whose market value was placed at about 92 1-2. This would make the cost of the stock 60.8, if based upon the par value of the bonds, and about 56 if based on the market value of the bonds given in exchange. By virtue of a resolution, which is appended to this memo., several of the directors claimed that they were entitled to participate in this purchase, and one of them had given notice in advance of the exact amount he wished to purchase. The books of the company recorded the sales of the bonds given in exchange as having been made at part instead of the actual market value of 92 1-2, thus recording an apparent gain of 7 1-2 points, which gain in respect of small blocks of this stock bought by or transferred to directors in January, 1905, had to be reversed and treated as losses in the books. The resolution to which I refer read as follows: "Extracts from the minutes of the meeting of the Board of Directors of the Sun Life Assurance Company of Canada, dated 30th December, 1902, all the directors, nine in number, being present. General business, in quotation marks. In view of the fact that the volume of very attractive securities now being offered to the company is greater than it can purchase, and with a view of enabling the company to take large blocks of the different securities for itself and its friends, and thus obtaining better terms than it otherwise could, at the same time also enabling it to scatter its investments more than it could if it had to retain all such large blocks for itself alone, it is desirable to authorize the management to divide such blocks with other financial corporations, and also to allow any directors

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who may desire to take part of such blocks of securities for themselves as individuals, to do so, on the same terms as those of the company's own holdings, but to be kept entirely distinct from and independent of the company's own purchase, the company not in any way assisting in financing for such. Certified correct extract. (Signed) T. B. McCauley, secretary. Resolution read, discussed and approved."

Q.—Now, before I ask you any questions about that, do you desire to add anything to what you have said, or is that now a complete statement of what you desired to say? A.—I do not recollect any other point.

Q.—Now, as I understand it, the statement that you have made this morning is a statement of the facts as they were explained to you at the time. Am I right about that? A.—Explained to me at which time?

Q.—At the time upon which you were making your investigation? A.—Well at the time of making the investigation in the latter part of November.

Q.—And who was it made the explanation to you? A.—The secretary, I believe, of the company.

Q.—The secretary whose name appears in this resolution? A.—Yes.

Q.—T. B. McCauley? A.—Yes.

Q.—Was that before or after—I think you told me this yesterday, but I want to be sure—was that before or after you had drafted and put in the report which we were discussing yesterday? A.—It was after.

Q.—You told me that yesterday, I think, that it was afterwards. So that the information which you have given us this morning more fully than you did yesterday is information which you obtained after you had written the clause in the report to which attention has been called? A.—Yes.

Q.—Let me just ask you a question or two about the transaction itself as it was explained to you. The \$580,000 of preferred stock in the Illinois Traction Company was purchased, you say, near the close of the year? That was what year? 1904? A.—The year 1904.

Q.—Purchased near the close of the year, and what you say was given for it was \$353,000 par value of the St. Louis & Springfield bonds? A.—That is the way I understood the transaction from looking over the books

Q.—In your report you state this: "Purchased in exchange for bonds, par

\$580,000, account value \$353,000"? A.—Yes.

Q.—Do you think that expresses the same idea that the \$580,000 was bought by handing over bonds to the par value of \$353,000? Just look at that. You see the account value is \$353,000? A.—That is the value at which the transaction went through the ledger accounts of the company in treating the transfer.

Q.—Let us start before the bonds were purchased; the company had something which stood them in their account \$353,000? A.—Yes.

Q.—That is right? A.—Yes.

Q.—That was the St. Louis & Springfield bonds, was it? A.—Two blocks of similar bonds.

Q.—When you say similar bonds, it was \$200,000 St. Louis & Springfield, and \$153,000 Illinois Central; is that right? A.—That is right.

Q.—What had that—or perhaps you cannot tell me—what had that cost the company? A.—The cost as far as I can recollect was 85.

Q.—Then \$353,000 was the par value and not the cost? A.—Not the cost.

Q.—Not the ledger value? A.—No.

Q.—Then \$353,000 of bonds was exchanged, was handed over, by the company in exchange for \$580,000 Illinois Traction, par value? A.—That is the way I understood the transaction.

Q.—That is the way it was explained to you? A.—Yes.

Q.—Then did the books show the market value of the St. Louis & Springfield as well as the market value of the Illinois Central bonds at the time of the transaction? A.—The books of the company did not show the market value; it was only the book value or the account value that the ledgers of the company would show.

Q.—The Illinois Central at that time showed 85 cents on the dollar as book value? A.—Yes.

Q.—And what did the St. Louis & Springfield show? A.—About the same amount.

Q.—Was it precisely the same, do you know? A.—I could not say precisely.

Q.—It was about 85? A.—About 85.

Q.—And what do you mean when you say the market value was placed at about 92 1-2? Do you mean that was put in the books as market value? A.—Not in the books, but in the return as made to the Department.

Q.—In the return made to the Department? A.—Yes.

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Q.—I think you have explained that now. Now, tell me, please, as far as you can recollect, just what was said to you about this resolution, and about the directors taking part, participating in this purchase? A.—That is a matter that I could not state. My memory would not go to that extent of repeating a conversation.

Q.—Or even the effect of it? A.—I think the effect as expressed perhaps in that resolution of the company, following their rights as given to them by that resolution, but that it was an unfortunate mistake that the directors themselves had not given notice to the management or to the parties who were making the purchase of the exact amount of stock they wished to take.

Q.—Except in one instance? A.—Except in one instance.

Q.—Do you remember who that was, the one who had given notice? A.—I could not state positively.

Q.—You cannot from memory state? A.—No.

Q.—Can you tell from memory whether or not the amount named in his notice was the amount which he subsequently took? A.—As far as I recollect it was.

Q.—Did your inquiries develop the precise quantities of these securities which were taken by each one who did take? A.—I did not look into that; that is, I did not make a note of it.

Q.—As a matter of fact, whose securities—because it was not money—whose security paid for this block of stock? Manifestly was it not the securities of the company? A.—That is the way it showed.

Q.—Well, it was so in fact; you have no reason to suppose that the \$353,000 of bonds were not the property of the company; they did not hold in trust for anybody? A.—No.

Q.—Then the terms of the resolution were not strictly observed, because the company was not to assist in financing so far as any acquisition of stock by the directors was concerned. However, I need not ask you, because it is manifest upon the face of it? A.—Upon the face of it, yes.

Q.—The company did finance, and the directors subsequently took the benefit to an extent which has not yet been shown? A.—Yes.

Q.—The books do show, or did show, did they not, just how much of the \$580,000 went to directors? A.—It showed just how much.

Q.—In what year would that be shown? A.—That would be shown in the year 1905.

Q.—The transaction with the directors, so far as the books are concerned, shows as having taken place in 1905? A.—Yes.

Q.—So that, so far as the books are concerned, they show the acquisition of the stock in 1904 by the company and the holding of the stock by the company until some time in 1905? A.—Till a few days after the beginning of 1905.

Q.—Do the books show that the directors paid the company? A.—Certainly.

Q.—And put them in funds to the extent of the holding which the directors took? A.—Necessarily so.

Q.—Have you convenient the return of this company for 1905? A.—This is it.

Q.—Does that appear anywhere in the returns of 1905, either directly or inferentially? A.—Not directly or inferentially.

Q.—Is the traction stock which the company remained owners of after the transaction with the directors still, according to this return, in the possession and ownership of the company? A.—Repeat that, please.

Q.—Does this return show that the company at the end of 1905 owned what was left of the Illinois Traction stock? A.—Illinois Traction preferred.

Q.—How much? A.—Par value \$754,500.

Q.—Was it the difference between \$754,500 and the \$580,000—no, it cannot be, of course. Where does that come from? Show me in this memorandum where it is? Where is the rest of the traction stock in this Exhibit 18? A.—\$1,315,000.

Q.—Was the difference between \$1,315,820 and \$754,500 what the directors took? A.—Not at all, not necessarily.

Q.—That had not necessarily any connection with it? A.—No, because of the fact that transactions whereby the company may have added to the stock or may have sold portions of the stock during the year would enter into the books.

Q.—And that would find no place in the returns? A.—No place in the returns.

Q.—And you cannot say that there is that connection between them? A.—No.

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Q.—One other question about your statement of this morning. When you say that the apparent gain of 7 1-2 points in respect of the small blocks of the stock bought by or transferred to the directors had to be reversed and treated as losses, what do you mean by that? A.—I mean that when these St. Louis and Springfield bonds and the Illinois Central traction bonds balanced off the books, they would show an apparent gain in sale of securities over and above the 85 which they had cost, and which was in the book—

Q.—That was an apparent gain because of the entry, which was a mere book entry, of market value of 92 1-2? A.—Of market value of par; this would record gains and sales of securities in the case of the sales of these two blocks of bonds.

Q.—As a matter of fact you were dealing in this statement with the small blocks transferred to the directors in January? A.—Yes.

Q.—In respect of that, according to the statement you have given us this morning, there would be neither a gain nor a loss in fact? A.—In fact there would be neither a gain nor a loss.

Q.—And the reversal of an entry of apparent gain does not really mean a loss? A.—Not at all.

Q.—It means getting that entry out of the way and reducing the transaction to the simple form of transaction which was not accomplished by either gain or loss? A.—Yes.

Mr. Shepley: I think it will be convenient—because the resolution is attached to it—to put in Mr. Blackadar's statement. It is on record now on his statement of evidence. (Ex. 22)

Q.—Are these the same reports that I had yesterday? Is the bundle the same as was here yesterday? A.—I think some more have been found.

Q.—Take up this one: this is one that was here yesterday. I see here a report of yours dated 13th February, 1906, signed A. K. B., which is your signature, as I understand it, with respect of the Imperial Life. You made your inspection early in the year with regard to this company also? A.—Yes.

Q.—This company having anticipated the date fixed by the statute for the returns? A.—Yes.

Q.—And I suppose it would be within a few days before the 13th February that you made your inspection? A.—Yes.

Q.—Can you tell me before I start at the minutiae of the report, from your

memory, what the circumstances were which seemed to you to call for a special report? A.—In this case I do not think there was any points in it that seemed to call for a special report. I was merely asked by the Superintendent to make to him in the case of the companies I was then examining any notes which may be of interest to him.

Q.—That was something that was, so to speak, superimposed upon your routine duties? A.—Yes.

Q.—This year? A.—Yes.

Q.—You were asked to make notes of any matters that struck you in the case of all the companies that you inspected? A.—In the case of—not all—well, it practically covered all.

Q.—What do you mean when you say "it practically covered all?" A.—Well, the instructions referred particularly to the life companies.

Q.—All that we are interested in? A.—Yes.

Q.—Do you know by reason of any discussion with Mr. Fitzgerald, why these instructions were given this year, which had not been given before? A.—I cannot say as I can give Mr. Fitzgerald's reasons, but no doubt they were actuated by the fact that he would be about to look into the matter of making changes in the Insurance Act, and in the form of statements, and wanted to be familiar with every phase of the company's business.

Q.—That leads me to ask you, were you aware that changes in the law were contemplated? A.—I think that was known from Mr. Fitzgerald's published reports, that he has had in contemplation changes.

Q.—For some considerable time? A.—For a short time.

Q.—When you say a short time how long do you mean? A year or two years or three years? A.—Within the last two years.

Q.—Within the last two years it has been known that Mr. Fitzgerald had changes in the law in contemplation? A.—Yes.

Q.—You have no doubt, though you do not speak of any actual conversation with him, that it was in consequence of that that he asked you to make these reports to him, or these observations upon anything you observed? A.—I think probably that was his idea.

Q.—With regard to the Imperial Life, this begins. "Amount due for reinsurance, \$20,000"; this is reinsurance of a policy on the life of the late Senator

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Fulford in the Confederation Life. I understand the Confederation disputes the claim, upon what ground I have not learned. What does "Amount due for reinsurance" mean? Is that an asset? A.—In the case of this company it would be an asset.

Q.—That was a sum of \$20,000 which they expected to get from the Confederation Life? A.—Yes.

Q.—Being the amount of a reinsured policy on Senator Fulford's life; is that right? A.—That is right.

Q.—And the return included that as an asset? A.—It did.

Q.—And your observation upon it is merely that the Confederation disputes the claim, though you do not know upon what ground? A.—I do not know upon what ground.

Q.—Has there been any official action in connection with that asset so far as the return is concerned? A.—It was not necessary; it was merely in the nature of a memorandum.

Q.—I quite understand that, but there has not been any official action; that has not been reversed as an asset, or taken out of the assets? A.—Not at all.

Q.—Then the next is "loans on stocks and bonds; the two main loans are to the Provident Investment Mortgage and Guarantee Company, \$25,000. This latter company bought the Metropolitan Bank stock from the Imperial about two years ago, paying about \$208,000 for \$100,000 of stock. The stock is now held as follows:—S. W. Wood in trust 270 shares; F. G. Cox, 300; T. Bradshaw, 230; J. K. —, 200. That statement to the effect that the shares are held in trust for the Imperial Life Association. There is a loan of \$170,000 upon this stock." Take these items separately. First there is the Provincial Investment Mortgage and Guarantee Company, \$250,000. What is the observation about that loan? A.—Nothing that I—

Q.—How was the loan secured? A.—It was secured by a transfer to the company of this \$100,000 of stock.

Q.—I am afraid I have not grasped the effect of the transaction. The statement says, "About two years ago the Provident bought Metropolitan Bank stock from the Imperial?" Is that right? A.—Yes, that is right.

Q.—Paying about \$280,000 for it. Did they pay it? Did they pay the \$208,000? A.—They paid the \$208,000, taking, of course, a loan—they paid the difference between what the loan was—

Q.—What was the loan? A.—It is stated here.

Q.—\$170,000? A.—Yes.

Q.—There is \$170,000 of the \$208,000 which remained on loan, and the difference was paid in cash? A.—That is right.

Q.—And these four gentlemen held different blocks of these shares of Metropolitan as trustees for the Imperial Life as security for this loan? A.—As security for this loan.

Q.—What is the market value of the Metropolitan stock? A.—I think it is about \$197,000, possibly at the present time, a little over \$200.

Q.—Then that \$170,000 forms part of the \$250,000, and the balance is \$80,000; how is that secured? A.—It is secured by \$90,000 bonds for the International Transit Company.

Q.—What is the International Transit Company, do you know? A.—That is a company, I think, which owns an electric railway between the American and Canadian towns of Sault Ste. Marie.

Q.—That is one of the Lake Superior Corporation companies? A.—Yes.

Q.—They have an electrical franchise between the American and the Canadian side? A.—Yes.

Q.—The bond issue, you say, is \$512,000? A.—Yes.

Q.—Do you know who holds the rest of that issue? A.—I have no means of knowing.

Q.—You do not in fact know? A.—No.

Q.—You have dealt here with the affairs of the Transit Company. I will run over this, but it need not appear on the notes of evidence. (Reads.) "Five months, July to November, \$14,477; and for the whole eleven months it is \$13,423." Is that because during the rest of the year it was run at a loss? A.—The winter months it is run at a loss usually.

Q.—Then you have profit on sale of securities? A.—That item is merely giving the details which go to make up the statement which is entered there.

Q.—Then there were two securities which were realized at the cost price only, the National Trust and the Canadian Northern. Here is an item I do not understand: "The increase of assets during the year has been altogether in mortgage loans on real estate." You mean that there are more assets of that kind than any other kind, or what? A.—I mean to imply there that the company's investments during the year had been in the direction of mortgage loans.

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Q.—That is in comparison with other kinds of investments, the investments upon mortgages on real estate have increased? A.—Have increased. The sales from bonds about counterbalanced the purchases.

Q.—You do not mean to say that the mortgages that they held had increased in value? A.—Oh, not at all.

Q.—These small blocks of bonds were purchased as follows? Shawinigan Water Power Company, \$24,500; over par \$25,000; British Columbia Electric Railway Company a little under par \$24,000; London Electric Railway a little over par; Winnipeg Street Railway a little over par; City of Edmonton a little under par; village of Tara a little under, and Brabordeen School district—where is Brabordeen? That seems to be a buoyant security, considerably over par? (Ex. 23.) A.—I could not say where that is.

Q.—Take next a report of yours of the 20th February, 1906, with regard to the Manufacturers' Life; that was also a company which made a yearly return for 1905 apparently? A.—It was.

Q.—And you made your inspection shortly before the date of this report? A.—I did.

Q.—Do the same observations apply to this report as to the last one; that is as to its origin, its inception, that it was not made because of any special features about it, but in pursuance of Mr. Fitzgerald's policy to have you report with regard to all, or were there some special features that you would have made your report anyway? A.—I do not know as I can eliminate Mr. Fitzgerald's instructions, and what I would have done independently in the case of any of these companies. I would have used probably my own—

Q.—It is not unfair to you to say that in the past, up to this year, you seem to have only reported where something particular struck you? A.—That is it.

Q.—As being questionable or properly a matter of comment? A.—Yes, that is right.

Q.—This year, as I understand it, you have reported indifferently? A.—Somewhat more fully.

Q.—And indifferently? A.—Yes.

Q.—Then there must be, I should think. Mr. Blackadar, cases this year in which you have reported in which you would not have reported if it had been two years ago? A.—Yes.

Q.—Can you say whether the Manufacturers' is one of them, or would you have reported with regard to that any-

way? A.—There was probably one matter in this report that I would have reported, as it arose out of a matter—

Q.—There is one matter about which you would have reported without having been instructed? A.—Yes.

Q.—We will probably get to that as we discuss it. The report begins with the Electrical Development Company stock, and Mexican Light & Power Company's stock. (Report read.) What is the Prudential Securities Company? A.—That is a company of which I have very little knowledge. It is referred to and probably will be brought out in a report which was called for in connection with Mr. Fitzgerald's dealings.

Q.—At all events, you do not know very much about it; it is probably what part of its name would indicate; it is a company which deals in securities; is that right? A.—Yes.

Q.—Then 350 shares of Mexican Light & Power Company's stock; is that part of the stock bonus on the bonds, or is it all—probably all? A.—Probably all.

Q.—70 per cent. of the \$50,000 would be \$35,000; cannot you see that that is no doubt the stock bonus accompanying the Mexican bonds; that is manifest, is it not? A.—It is manifest that it is.

Q.—And the \$45,000 of electrical development is no doubt the stock bonus on the bonds held in that company? A.—Yes.

Q.—Then those of the Dominion Coal and Crow's Nest Coal stock were sold for \$240,000 altogether. (Reads from report.) Then they got \$11,262.50 for 100 shares of Prudential Securities stock; it was in respect of their share holding that they got this \$8,000 and stock which realized \$3,000? A.—I think the figures here would explain the matter as contained in the books of the company.

Q.—Is that not so? I want to put it in a nutshell. One hundred shares of Prudential stock, which formed part of the purchase price of all these shares realized in the winding up of the Prudential \$8,000, plus \$2,262.50? A.—I think to explain that matter fully you would have to take up a prior transaction with this company.

Q.—With the Prudential? A.—Not with the Prudential, but with the factors, which is contained in an exhibit in the special report book.

Q.—I am not going to hamper you in explanation at all, but I should like, if

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possible, that you should answer the question just as I put it. The Manufacturers' had no business to charge in the winding up, except in respect to their stock holding, had they? The Prudential were not debtors, otherwise than as owing money to their stockholders? A.—As far as I understand it, the securities books of the company do not show—it is a difficult matter, as I say, to explain this without going into that other matter.

Q.—At the moment I am not asking for an explanation; I am just asking you for the fact. Had the Manufacturers' Life any interest in the winding up of the Prudential, except as holders of 100 shares of stock? A.—That is all the interest.

Q.—Was this \$8,000 which you say was returned to the Manufacturers' in the winding up—was it or was it not in respect of their holding of 100 shares of stock? A.—If you will, yes.

Q.—Well, really? A.—Really, yes.

Q.—And the handing over of 70 shares of Mexican Light & Power Company stock was also in the course of the winding up a liquidation of the obligation of the Prudential to its shareholders; that is manifest, is it not? A.—The actual money transactions, I understand fully in respect of this matter, how the money transactions appeared in the books of the company, but just the connection between the—

Q.—Well, now, Mr. Blackadar, you have told me that the Manufacturers' had no interest in this winding up of the Prudential, except as holders of this 100 shares of stock. Therefore, does it not follow that whatever they got out of the winding up must have been in respect of their shares? A.—Yes, must have been.

Q.—Then they got \$8,000 in cash out of the winding up, and they got 70 shares of Mexican Light & Power Company's stock out of the winding up? A.—Yes.

Q.—Now, what I am asking you is, must not all that getting in of securities and money be referred to their ownership of stock? A.—Yes.

Q.—Then the 70 shares realized in December \$3,262.50 according to this memorandum, so that altogether they got \$11,262.50 out of the winding up of the Prudential? I think that must be right, is it not? They got \$8,000 cash and stock to the extent of \$3,262.50? A.—It is difficult for me to explain in

that matter, because I have treated the transaction all through on an entirely different basis. The Prudential Company does not appear, as I am aware, in the stockbook of the company. It arose out of an entirely different matter. I am not aware of the exact financial dealings of the company. As I say, we are dealing with a matter here which I cannot explain without taking up another previous transaction.

Q.—If you would get out of your mind for the moment any necessity for explanation, because it is just a simple fact I want, and I am not going to stint the explanation in the slightest degree. I want to know whether this \$11,262.50 did not come into the coffers of the Manufacturers' by virtue of its holding 100 shares of Prudential stock; that is manifest. I want to get you with me as far as I can. It must be so. Perhaps I can put it in another way. If the transaction was as you have put it in this memorandum, that the Manufacturers' got \$8,000 cash and 70 shares of this stock—if that was the transaction, they had no other title to it than as shareholders—Perhaps you can answer that question in that way—they had no other right to receive it from the winding up except as shareholders? A.—That is a point, as to the dealings between the company and the Prudential, I am not able to decide or determine.

Q.—I do not want you to determine any question of law or of principle. I just wanted to see if you could answer that simple question. It seems to me to be a simple question. If they had not held that 100 shares of stock they never would have got the \$8,000 cash or 70 shares of Mexican; they would not have been entitled to ask for anything in the winding up any more than I would have been entitled? A.—No.

Q.—That is right? A.—Yes.

Q.—“The \$8,000 was divided equally between the ledger accounts of the Electrical Development Company bonds, and the Mexican Light & Power Company's bonds, which now stands as follows” (Reads report)? A.—And this \$4,000 is one-half of the \$8,000 mentioned above, and this \$3,262.50 is that item.

Q.—Do you offer any criticism about that as a matter of proper bookkeeping? A.—It is quite proper in bookkeeping.

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Q.—It is quite proper in bookkeeping? A.—Under the heading of the Mexican Light & Power Company.

Q.—The \$35,000 had gone out? A.—Yes, and this is the return that came for that \$35,000.

Q.—And \$3,262.50 came in? A.—From the sale of what was returned of those 70 shares.

Q.—As a matter of bookkeeping, would it not have been proper on the transaction with the Prudential to have brought the shares of the Prudential into the ledger account; that was security held by the Manufacturers? Would that not have been the proper way to do it? A.—I would not like to give an opinion off hand.

Q.—You would not like to express an opinion about that? A.—No, not without having more light on it.

Q.—Can you explain why the \$4,000 was divided equally between these two accounts, the Electrical Development Company and the Mexican Light & Power Company? A.—I was not given any special reason.

Q.—Can you see any reason for it? A.—I cannot see any reason.

Q.—It was just as referable to the Dominion Coal and the Crow's Nest Coal as to this, was it not? A.—Well, we are going into matters now that come up in another condition.

Q.—You do not like to answer that either? A.—No.

Q.—They sold \$2,500 of bonds of the Mexican Light & Power Company for \$2,082.25; so that, crediting the \$7,262.50 and the \$2,081.25, it leaves them the whole of \$47,500 of bonds which stood them \$35,625? A.—That is the result.

Q.—Is this method of bookkeeping? A.—Yes.

Q.—And I suppose if you do not care to express an opinion, any competent bookkeeper or accountant ought to be able to express an opinion about that as a matter of bookkeeping? A.—Yes, as a matter of bookkeeping.

Q.—Then the Electrical Development Company's transaction stood \$50,000 bonds and \$45,000 stock, less the \$45,000 stock sold to the Prudential, less \$4,000 received back from the Prudential, making the \$50,000 alone, which stands them \$43,500. That is manifest upon the face of it. Then in 1905 they bought \$100,000 more of bonds for \$88,000, and they now hold \$150,000 in bonds of the Electrical Development Company,

which have cost them \$132,125? A.—According to that method of bookkeeping.

Q.—As to which again you do not express an opinion? A.—No.

Q.—Then I pass over the next part of it. The following gains and losses are recorded in the sales of securities of real estate during the past year: gains, Japanese loan \$4,888.74. Did this company invest in a Japanese loan? A.—Yes.

Q.—Where was that security put upon the market? A.—I think it was one of the late Japanese loans.

Q.—Floated where? A.—Presumably in New York; I do not know just where it was.

Q.—Any trace of underwriting about that? A.—Not at all.

Q.—Then the Imperial rolling stock bonds. (Reads from report.) Any observations to make about any of that, any of these gains or losses? A.—No observations. I am merely giving the details of an item that is entered in the company's return.

Q.—Then they sold some Belleville stores at a loss, and they have made a small gain on the Manly property, making a net loss of \$1,357.24, which is to be deducted from the gain on stocks and bonds. Any observation to be made about that? A.—Nothing.

Q.—Belleville, stores, I suppose, were sold under a mortgage? A.—I cannot answer that, as I have never examined the mortgage securities that I am aware of of this company.

Q.—Then their investments during the year to the tune of a million and a half: Government bonds, \$131,000; municipal debentures, \$634,000; school districts in the Northwest Provinces, \$66,000; bonds of electric railways and rolling stock companies, \$363,000. (Reads) What bank stock is that? A.—I have an idea it is various; it should be banks.

Q.—Winnipeg electrical, \$252,000; total of \$1,577,000 of investments. Then you have a memorandum as to interest. The interest is four or five per cent. Then there is the sanitarium which we have dealt with fully already. "The expense ratio of this company is perhaps the second lowest of the life companies"—(Reads) Then you said there was one feature about which you would have reported independently of any instructions; is that it? A.—No, the one feature is this transaction which you went over.

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Q.—One feature which you would have reported, had you not had any special instructions upon that subject, was in connection with this application of stock? A.—Yes.

Q.—The total of foreign insurance of nine million and a half, upon which the reserve is \$1,182,000. What proportion of their total volume of insurance was this foreign insurance? A.—About a quarter.

Q.—About a quarter of the insurance of this company is foreign? A.—Yes. (Statement Ex. 24).

Q.—While we are at the Manufacturers', let me take up a former report of yours which seems to have been filed on the 14th June, 1901. This was a spontaneous report, I suppose? A.—Yes.

Q.—We will see what it is about. "Re the Manufacturers' Life" (Reads report). Have you got the statement which was to be made ready for you the following Monday? A.—I have not.

Q.—Can it be obtained? A.—I was trying to find the record of that transaction in the blue book.

Q.—Have you found it? A.—No, it would be 1900. This is merely an explanation of an item which was added or a correction made in the company's statement.

Q.—Can that be obtained, the document itself, the statement of these transactions which was being made up for you in June, 1901? A.—That will probably be either in the bound volumes of the company's statements, or else with the file of the Manufacturers' Life.

Q.—We will have that. It is a statement made by the Manufacturers' Company about June, 1902, with respect to the cash payment of \$43,234.56 made to Mr. Gooderham? A.—Here it is.

Q.—Then did the transaction remain, was it permitted by the Department to remain recorded as a proper expenditure in the return? A.—Yes.

Q.—And it appears at page 215 of the report of the Superintendent for 1900 under this description, "Paid for commissions and other matters on investments of previous year, \$43,234.56. Can you tell us without reference to the statement which is to be looked for, just in your own way what the explanation was which was permitted to pass and permitted to justify this entry remaining in the return? A.—I would

prefer to wait until the return mentioned there.

Q.—It is nearly five years ago, and perhaps that is not unfair, but I may perhaps ask you a general question. There is a reference in this report of yours to some agreement by which Mr. Gooderham was to receive renewal commissions out of premiums paid direct to head office. Is that a sort of agreement that the Department recognizes as proper? Supposing, for instance, I go into the office of the Manufacturers, without reference to any agent at all, and I say, "I want to have my life insured," and I am accepted and a policy issued, does anybody get a commission on that according to the practice of life insurance companies? A.—Well, you are asking me a question which I do not feel competent to answer.

Q.—Does not your experience enable you to say whether you find in your inspection of the affairs of companies a right to commission, and not recognized in such cases? A.—That I think goes beyond what is expected of me.

Q.—Do you think it goes beyond your sphere of inquiry? A.—I think it does.

Q.—If in fact a commission is paid you do not inquire as to the propriety of it? A.—No.

Q.—You can tell me whether or not such commissions appear to have been paid by insurance companies? A.—My inspection of the books would not disclose any such commissions.

Q.—It would not disclose, in other words— A.—The details.

Q.—Whether the business came through a canvassing agent or came direct to the head office? A.—No.

(Statement Ex. 25.)

Q.—I will reserve further questions till that statement is found. Among the companies you examined early this year was the Continental Life, upon which you made a report? A.—20th February, 1906.

Q.—That is this report? A.—Yes.

Q.—Did this investment disclose anything you would have reported spontaneously? A.—Nothing.

Q.—We will run through it very briefly. (Reads report.) "The book or cost value being realized"? A.—Exactly.

Q.—How is that? A.—Many of these had only purchased during the year, and they were sold practically at cost.

Q.—To whom were they sold? A.—I did not inquire into the matter.

Q.—I do not understand how they came to be sold for precisely the same

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that they were purchased for? A.—I may state that I looked into that matter, and saw what satisfied me how the sum to be realized was precisely the sum at which they stood in the company's books.

Q.—Can you recall what it was that satisfied you? A.—Most of them had only been purchased a short time back, and any difference in the amount realized and what it stood in the books at was carried into the interest account as interest that had accrued up to the time of the examination.

Q.—What was the reason for selling? Were they not considered good permanent investments? A.—The reason is given in the preceding paragraph.

Q.—In order to buy the Medical building? A.—Yes.

Q.—You have stated that that was in January of this year. I thought you were speaking of January, 1905, because you were dealing with the report of that year. Can you tell me in a moment by reference to anything what the impairment of capital was that was impaired to the extent of \$6,000 during last year? A.—The impairment at the end of 1904 appeared to be roughly \$69,000.

Q.—The difference between the amount of the premium and what it costs to get the business is paid out of what? A.—State it again.

Q.—The difference between what the amount of the premium is and what it costs to get business—where does that come from? A.—I do not understand it.

Q.—I understand it costs \$131 to \$136 to get \$100 of premium? A.—That may be got from the balance of the loading on the renewal premiums over and above the fifteen per cent. mentioned in this statement. It finds its way in the first place into current expenditure. That is one source and the other is from gains in mortality and also in a higher interest rate being obtained. Those are three of the sources.

Q.—And when those are all used up, and you have not yet got \$136, where do you get the rest? A.—In this particular case the fact that the impairment had been reduced during the year about \$6,000 showed to my mind that the whole of the loading and the profits otherwise obtained from the various sources that I have enumerated had

been more than sufficient to cover the total general expenses of the company.

Q.—I think perhaps you have inferentially answered my question. As a matter of fact, that \$136 goes into the current expenditure of the year—the items making it up? A.—136 per cent. of the new premium income had gone into the current expenses of the year.

Q.—And the \$100 premium received found its way into the receipts of the year? A.—Yes.

Q.—And as it happened in this particular year the receipts more than balanced the expenditures by about \$6,000? A.—No, that is not right.

Q.—Why is it not? A.—It does not necessarily follow from what I have stated there that the receipts exceed the expenditure by \$6,000. As a matter of fact, the receipts exceeded the expenditure by \$91,000.

Q.—What did you do with the difference? A.—I will amend that \$91,000 by about \$82,000.

Q.—What was done with the difference? A.—The greater portion of the difference was added to the reserve.

Q.—That reserve, of course, is something that has to be made good in the course of the year? A.—Yes.

Q.—In respect of the additional volume of insurance? A.—Yes.

Q.—Whatever its name is, that is the expenditure which is to be provided for, or the laying apart of money which is provided for? A.—The laying apart of money which may be an expenditure, because the time may arrive when the reserve will be reduced, and it would be a source of money available. (Ex. 26.)

Q.—What is this document? A.—This document only deals with matters which come down to the end of 1896 apparently.

Q.—Now, the next matter I am going to ask you about is a matter which is dealt with in a report of yours which is stamped the 14th February of this year. It is headed, "Items in return." To what company does that relate, or what companies? A.—It will relate to all the companies practically. It does not relate to any particular company; only two special companies are mentioned in it.

Q.—The two special companies being the Imperial and North American? A.—These had happened to come under my view just previously to my writing the memo.

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Q.—(Reads memo.) I think that probably explains it. Is the item being amended accordingly? A.—It is too soon to say.

Q.—That has not been taken up yet, I suppose? A.—No.

Q.—What treatment is given in respect of these policies marked "taken," where a note has been taken and no cash passed? What treatment is made in the company's books and in the return? A.—Where a note has been taken and no cash?

Q.—Yes? A.—It is entered in the return under outstanding premiums in the assets.

Q.—That is taken in as an asset under the head "Outstanding premiums"? A.—Yes.

Q.—Then when the note matures and is not paid, what entry is made in the books about that? A.—There would be a reversed entry.

Q.—That would be written off? A.—It would be written off the premium account.

Q.—Is there any treatment of the reserve in respect of these suspended policies? A.—They are treated as if the premium had been paid and there is full reserve, and from that it is carried into liability.

Q.—I suppose it is fairly manifest, but I would like you to state it, so that we will not be under any misapprehension about it; what is it that you mean when you say that this method makes the showing more favorable to these companies than to those which report business paid for in cash only. Why is that more favorable? A.—Practically it amounts to this: I think it is explained there; a large number of policies are entered one year as taken; they are written off the next year among the non-taken policies. If only policies that had been taken and paid for in cash had been included in this item, there would have been included no taken policies upon which notes were given; that is, these policies would not appear in this particular item under review until the cash was paid on that note, and the policy—

Q.—That I think your memorandum makes quite plain, but your memorandum goes on to say "Thus making the showing more favorable to these companies than to those which report business paid for in cash only." I want to know in what respect it is an advantage to the company to include policies which have not been paid for in their state-

ment? A.—It merely goes to swell the amounts entered in this under the item of new policies taken during the year.

Q.—Why is it an advantage to the company to swell that item? A.—Merely to show having taken a larger amount of business (Statement Ex. 28).

Q.—I am going to take next a report which I take to be a spontaneous report of your own, dated 14th June, 1904, in respect of the examination of the Home Life Association; you identify that? A.—Yes.

Q.—That was a spontaneous report? A.—Yes.

Q.—A report which you made because you thought it was necessary to make it, apart from any special instructions? A.—Yes.

Q.—(Reads report) Was that compiled with? Was that investment taken up? A.—It was.

Q.—And it disappeared from the list of investments permanently? A.—Yes. I think you will find that that later transaction was under review in that report read yesterday in respect of the Home Life as having been uncompleted.

Q.—Up to the present time? A.—Yes (Ex. 29).

Q.—Another report of the 2nd June, 1904, of the affairs of the Confederation Life; that also was a spontaneous report? A.—Yes.

Q.—(Reads from report). Were those matters referred to there cleared off? I see you made a report on that in February, 1905? A.—Yes.

Q.—There was the Nova Scotia Steel & Coal Company, Dominion Coal Company, etc. (Reads). Take the Nova Scotia Steel & Coal Company's bonds, what about those? In June, 1904, you said those were unauthorized; what was done about them? A.—They remained in the statement as published on the 31st December, 1903. I do not see them in the statement of the 31st December, 1904.

Q.—They seem to have disposed of them during the year 1904? A.—Yes.

Q.—Dominion Coal Company, same about that? A.—Yes, same about that.

Q.—Then about this Canadian Pacific Railway \$100,000 par value? A.—Those were still in the possession of the company on the 31st December, 1904.

Q.—Then look at 1905?

Mr. Grant: We have not that statement here for the Confederation.

Mr. Shepley: Then we will make a note of that Confederation Life state-

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ment for 1905 re Canadian Pacific. Has there been any alteration in your view as to whether that stock is authorized or not? Your view in June, 1904, was that it was an unauthorized investment? A.—That is a matter—

Q.—That is a matter upon which you had a view then; has your view changed? A.—It has not changed.

Q.—Has there been any communication to the company of that view of yours? Apparently you were assured by the actuary when you were making this examination in June, 1904, that they would be cleared off before the close of the year. Was that statement in your report correct? Were you so assured? A.—I think that statement had reference only to the transactions in paragraph 3.

Q.—Taking the transactions in paragraph 1, particularly the Canadian Pacific, did you state to the officers of the company that that was an unauthorized investment and that they must dispose of it? A.—I have no recollection of doing so.

Q.—Has there been any communication from the Department to them that you are aware of? A.—Not that I am aware of.

Q.—Is your view that that is an unauthorized security the view taken officially in the Department? A.—That I cannot state. The report was sent to the Superintendent.

Q.—That you cannot state? A.—No.

Q.—You do not on your own initiative apparently deal with the matter, as between the Department and the company? A.—No. This is a company whose securities are examined by the Superintendent.

Q.—We will see whether that stock is still held by the company. You are not aware of any communication as you have told me between the Department and the company on that subject? A.—No.

Q.—Then the loan on Dominion Company and C. P. R. Company stock—did that disappear by the end of 1904 in the list of securities for loans on the security of stock? A.—It did.

Q.—It disappeared? A.—Yes.

Q.—It was done? A.—Yes.

Q.—Then we have seen about the D. J. Macdonnell loan; that is still on foot to the extent mentioned in your supplemental report? A.—At the end of 1904.

Q.—It did not appear in 1905? A.—No.

Q.—Then we will see the returns for 1905 as to the Macdonnell loan—

Mr. Kent: Q.—Call loan? A.—Call loan, yes.

Mr. Shepley: Q.—Then the Myers' loan on the Confederation Life's stock—did that disappear? A.—Yes, that disappeared. When I say disappeared, it might have appeared, another security given for it.

Q.—Did that security disappear from the list of securities? A.—Yes, and so far as I know, the loan as well.

Q.—Then there is just the two, the Canadian Pacific and the Macdonnell matter. You will let us know at 2 o'clock about them, and have the return for 1905 here? A.—Yes. (Two reports Ex. 29).

Q.—Then this which I am about to refer to is the last of the matters you have given me at present which I am proposing to enquire into. This is a report written at Toronto on the 2nd June, 1896, in the shape of a letter to Mr. Fitzgerald, which is signed by your initials, to which is annexed what is called a note on the statement of 1898 of the Supreme Court of the Independent Order of Foresters.

(Reads letter). What is the explanation of that portion of the Temple property held in the name of the Ontario Realty Company—what did that refer to? A.—As near as I can recollect—perhaps I had better not give an explanation at all, but leave it to Mr. Fitzgerald.

Q.—Don't you know anything about it? A.—He has gone fully into that matter, and would be able to explain it more accurately.

Q.—Can you explain it? A.—I do not think I can explain it, no more than what is stated there.

Q.—What shape is this item in, in subsequent statements? A.—In this particular statement the foot-note as mentioned there was added to page 377—

Q.—Which statement have you there? A.—The statement of 1898.

Q.—The footnote was added in the published statement for that year as you recommend it? A.—Yes.

Q.—Let us see what the footnote of that is "Value of real estate, less incumbrances held by the company, Temple property, \$426,262.93." The footnote is "A further sum of \$240,000 represented by a mortgage for that amount included in the item 'loans on real estate made by the Ontario Realty Company,' never ap-

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peared or has been expended on the Temple building, making the total expense thereon \$666,262.93." I should like you to take the return for some later year and tell me how that appears? A.—For the year 1900 the total was included in the value of the Temple building—the total cost of the building less amount written off.

Q.—That would include the \$240,000. whatever was left? A.—Yes.

Q.—The total amount was written down to \$553,807.35 in the year 1900; that was the amount of the return? A.—The amount of the return.

Q.—You ask the question "Does not the charter of the order limit the amount of real estate to \$350,000." Did you follow that enquiry up at all? A.—I understand the charter was amended allowing a larger amount to be invested in real estate.

Q.—You understand there was a subsequent amendment after this report permitting the amount of real estate to be greater than \$350,000? A.—I would not say after.

Q.—It may have been done before? A.—Yes.

Q.—What is the general fund? That means the general expense fund? A.—General expense fund, yes.

Q.—First you find that interest received was charged up to a contingent account to the extent of \$222,000 odd in the three years 1896, 1897 and 1898?

Mr. Kent: Charged up or credited?

Mr. Shepley: It was carried. The statement says charged. "The following amounts of interest received have been charged up to the contingent account 1st May, 1896; previous to that date the interest was carried to the general expense fund."

Q.—In the first place what interest was that? A.—The interest on the securities of the company, the mortgages and so on.

Q.—Did you mean that this interest had been charged to the contingent account, or had it been carried to the credit of a contingent account? A.—Well, I do not know just how it was.

Q.—Carried in to the credit of a contingent account, to be drawn against? A.—Yes.

Q.—Then that was drawn against to the extent of \$14,830 for the purposes of the sick and funeral department, according to this report of yours? A.—I have no means of telling except what is given there.

Q.—You said "Of this there was a portion to the sick and funeral department

of \$14,830.90, which was transferred to the expense fund of that department"; that means they drew out of this \$222,000. \$14,800 and carried it over to be used in the sick and funeral department; is that the meaning of the report? A.—Yes.

Q.—Leaving \$207,757 which has been transferred from the contingent fund to the general fund at the end of 1898; that would mean the contingent fund was balanced off, carrying what was lying to the credit of it to the credit of general expense fund? A.—Yes.

Q.—And leaving it there to be drawn against? A.—Yes.

Q.—Of this amount there has been paid out for expenses as shown in the books \$181,000 odd? Have you anything to show what those expenses were? A.—The expenses are given here in detail.

Q.—There is no detail of organizing expenses which it an item nearly \$38,000? A.—There is no subdivision of those accounts.

Q.—What can it mean, organizing expenses? A.—The amount paid for agents whom they sent out to establish new—

Q.—No, because those organizers got \$80,000. There are \$80,000 paid to organizers and organizing expenses \$37,000? A.—Well, it would be other expenses in connection with the establishment of the order.

Q.—At all events you are not able to say any more than appears here? A.—No.

Q.—That \$18,000 does not include the expenses of running the Temple which were put in in a separate item? A.—Yes, that is right.

Q.—And there ought to be left out of that original \$222,000, according to this report, \$15,687.

Q.—You say that is left unexpended in your report? A.—Yes.

Q.—The company's balance of the general funds appears in their books \$35,000. Does that appear anywhere in this return? A.—Not in this return.

Q.—How would you account for the difference? Was it some other fund besides this contingent fund which went into the general fund? Perhaps I could ask you a question which will give the same result without trouble. Is the \$15,000 originally in the contingent fund included in the \$35,000 balance, as shown by the books? A.—I have not been able to go over this and brush it up.

Q.—Then that \$35,000 includes a temporary loan to the Temple of \$20,000,

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\$9,389.52 of which is interest on the \$240,000 mortgage. As I understand it, the Ontario Realty Company were the mortgagers, the people who ought to pay interest on that mortgage? A.—Yes.

Q.—Then why was this loan to the Temple made? Why did the Temple borrow from the Foresters interest on \$240,000 which the Ontario Realty Company owed to the Foresters? You are not able to say? A.—No, it is apparently of the nature of a cross entry. I have treated that \$240,000 as being part of the real estate.

Q.—It was an asset of the Foresters? A.—An asset of the Foresters.

Q.—It was an asset of the Foresters bearing interest and apparently the Foresters are finding the money to pay themselves the interest? A.—Yes.

Q.—However, you do not explain that, because you do not explain that, because you do not understand that at the present time, whatever you understood then. Then the next item is the excess of receipts over disbursements. (Reads) That is the \$9,389.52 interest on Temple mortgage has been included in the receipts, and \$10,715 had not been entered as an expenditure? A.—Yes, that explains this.

Q.—“The necessary changes have been made in our statement,” etc. (Reads) What is S. and F.?” A.—Sick and funeral.

Q.—Then to the extent indicated according to this report the return of the Foresters for that year 1898 was amended so that in the published return those errors are corrected? A.—The errors indicated in the return are corrected. (Statement Ex. 30.)

Mr. Shepley: Here is a report made by Mr. Blackadar on the Home Life so long ago that I only put it in for historical reasons. It reports up to the end of 1896 only, and I shall probably refer to it on some future occasion, but I do not propose to take Mr. Blackadar over it, as we will be pretty well taken in up in investigating modern matters. (Ex. 31.)

Q.—If the board adjourns a little earlier can you have the matters spoken of this morning here at 2 o'clock? A.—I think so.

Q.—There were some matters noted yesterday, and Mr. Ross might let you have a memorandum of those things? A.—We have a memo of those.

(Adjourned for one hour.)

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AFTERNOON SESSION.

The examination of Mr. Blackadar, continued.

Mr. Shepley: Well, Mr. Blackadar, what new have you brought for us this afternoon, what that we have not had before? A.—Statements of the Home Life and Confederation Life.

Q.—Take the Home Life first. Will you tell me, if you have not already done so, what alteration, if any, has been made in the bookkeeping of the Home Life in respect of the building, which we dealt with yesterday, as a result of your intervention? A.—That is a question that I hardly understand. We made no inspection of the Home Life Company since the date on which that report is printed.

Q.—You have had a return from them? A.—We have had a return since the 31st of December, 1905.

Q.—How is the Home Life building dealt with in that return? A.—The item of assets in the return of December 31st, 1905, puts the value of real estate, less encumbrances, held by the company, at \$125,000.

Q.—Is that the Home Life building? A.—It includes all the real estate held by the company.

Q.—Has it any real estate under that head except the building, that you are aware of? A.—Not that we are aware of. The statement has not been examined. We have to take it as it stands.

Q.—How does that differ from the value put upon the corresponding item in the year before? A.—The corresponding item as first returned to us the year before was \$185,000.

Q.—Then we have before us already and you and I have discussed the report that you made in respect of that. What you find in this return is that the corresponding assets appears to be written down by \$60,000? A.—From the previous return; not as printed in the blue book.

Q.—How was it printed in the blue book? A.—It is exactly the same as printed in the blue book.

Q.—That is the change was made before you printed the blue book for 1904, and it has been maintained in the blue book for 1905? A.—That is right.

Q.—Then what do you find in the return for 1905 in respect of the Grand

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Valley Railway Company's bonds? A.—The entry, Grand Valey Railway Company bonds, par value \$44,000, ledger value \$37,710, market value \$37,710.

Q.—Was that published in the same way in the blue book for 1904? A.—Not in the same way.

Q.—What was the difference? A.—The same par and same ladger value, but the market value was printed \$46,200.

Q.—Then your report made this observation, "I have reduced this amonut to the cost price, \$37,710?" A.—Yes.

Q.—The company, in making its return for 1905, has adopted your figures as to market value? A.—It has.

Q.—Although those figures did not find their way into the blue book for the previous year? A.—No.

Q.—What has happened to the Ontario Electric Light, Heat & Power Company bonds? A.—That item does not appear among stocks, bonds and debentures in the return of 1905.

Q.—Can it be ascertained from the return, which of course is all you have access to to-day, what became of that asset, whether it was written off or paid off or what? A.—In the synopsis of ledger accounts facing p. 5 is the item, "Stock, Ontario E. L. H., & P. Co. written off \$11,350.70."

Q.—It is said to have been written off? A.—Yes.

Q.—Does that furnish you any indication of the circumstances under which it was written off, whether by reason of it having been paid or by reason of it having been sold or by reason of it having been abandoned as a bad debt? A.—The inference here would be that the amount has been written off as a bad debt. That is it has not been included in the ledger assets of the company as being worth anything, or in fact no mention has been made in the ledger assets of the company of it still being in the hands of the company.

Q.—When you come to make your investigation of the books in a case of that sort, what do you do in respect of an asset that you find to be written off in that way, do you make any inquiry about it? Do you find out what has happened to it, whether it has not only disappeared as an asset but disappeared as a fact out of the company's possession? A.—We make inquiries concerning it.

Q.—Do these words "written off" ever turn out to have another meaning than reduced to zero as a bad asset; for in-

stance, do they turn out to have the meaning that the asset has been realized and the money received? A.—Not that it has been realized and the money received. The asset may have been realized and the money received to an extent less by the amount so written off.

Q.—What amount is written off? A.—The amount here is \$11,350.70.

Q.—That was the cost and market value according to the return of the previous year? A.—Yes.

Q.—That seems then to have been all written off? A.—All written off.

Q.—Then that is all that appears. You will be in due course investigating upon the footing of that return, I suppose? A.—The statement is still to be examined.

Q.—Then did you make an inquiry to see whether there was any other correspondence than that you produced between the Department and the Royal Victoria? A.—I ascertained that there was a private letter that had passed between Mr. Fitzgerald, and, I think, Mr. McKay.

Q.—I want to say to the Board and to anybody who is interested, that I have seen that letter. It is a private letter and it does not in any way affect any of the matters that are under inquiry, beyond this, that, in making his answer to it, Mr. Fitzgerald said: "I send you a copy of this report"; but it was not asked for in the letter, nor referred to and I have taken the responsibility—which I hope counsel will agree that it was proper I should take—of saying that that letter need not be produced; it does not touch this inquiry at all. It is proper that I should make this statement because I asked Mr. Blackadar yesterday to verify that. Then you were asked to find out how much of the capital of the Central Life was called up between the date of your inspection and the date of the granting of the Dominion license? A.—I ascertained that the remaining 5 per cent. referred to had been paid in and that the capital amounted to \$75,000 before the issue of the license.

Q.—That is that \$75,000 had been paid on account of capital? A.—Yes.

Q.—What percentage was that of the whole capital stock? In other words, what is the capital stock of the company? A.—I don't remember what the total subscribed capital was.

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Q.—And you therefore do not remember what percentage \$75,000 would be of that? A.—No.

Q.—I think you told me yesterday—if you did not I want to ask you to-day—even with the capital paid in to the extent of \$10,000, the affairs of the company showed impairment of capital at the date of granting of the license? A.—The fact that additional capital had been paid in did not affect the impairment.

Q.—The capital remained impaired? A.—Remained impaired.

Q.—Then you were to find out with regard to the Sun Life, when and for what the Sun Life purchased the bonds and stock of the Mexican Light & Power Co. Have you ascertain that? A.—None of the returns to our Department call for such information, and that could only be ascertained either by writing to the company or by examining the books of the company.

Q.—Then can you state when and for what they sold these bonds, if they did sell them? A.—Not except in the same way, by getting the information from the same sources.

Q.—Are you able to throw any further light, documentary or otherwise, on the transaction that was spoken of this morning, in the Manufacturers' Life, when Mr. Gooderham was paid \$43,000? A.—I have had the records in the office searched, and also the records, statements of the company, have been brought down here to the Commission, and I am informed that no such statement has been found with regard to that.

Q.—That is nothing that would throw any light upon the circumstances under which that payment was made? A.—I can only infer from that that the document was available at the office of the company.

Q.—And not brought away to the Department after the close of your inspection? A.—No.

Q.—And you are still unable to remember, as by an effort of memory, what the explanation was? A.—Nothing further than what is contained in that report.

Q.—Then you have got here the Confederation Life's statement for 1905? A.—I have.

Q.—Can you tell me about the Canadian Pacific stock that we were speaking of this morning in connection with that return? A.—I can find no record

of it in the statement for the year ending 31st of December, 1905.

Q.—Then that has disappeared, can you say by conversion into other securities or how? A.—I am unable to give any other information.

Q.—What about the Macdonald call loan? A.—In the call loans of the company no such security appears.

Q.—As the Macdonell loan? A.—It would not appear under that name.

Q.—There is nothing there that you can identify as this loan? A.—Canadian General Electric.

Q.—You do not find any loan returned which you can identify as being a loan upon that stock? A.—No.

Q.—And similarly, I suppose, as to that, you are not able to say in what way that has disappeared, whether by realization, conversion into other securities or how? A.—I am unable to say.

Q.—About these assets when they are written off; do you or does the Department require those assets to be carried forward, after they are written off, so that you can have some supervision over them every year, or do you permit them to disappear altogether, not only from the returns, but from the books and from your inspection. A.—They appear in the books of the company, but the Department has not insisted that they be carried into the statements, the returns.

Q.—What I am more concerned with is this, being in the books of the company, are they in such a position that, with your yearly inspection, you could always find whether there has been any motion in them? A.—We can.

Q.—You can always do that? A.—Yes

Q.—In connection with the Sun Life Insurance Company, were you aware of the existence in the books of that company of an account called the contingent account? A.—I cannot recollect the names of any particular accounts.

Q.—Do you remember an account which was not an active account, which was not advertised at all, but which was disclosed to the Government and laid bare for your inspection from year to year? A.—I think there likely was an account.

Q.—Do you remember the nature of the assets that went into that account, whether it was called contingent account or what not? For instance, bonus stocks, stocks which were incident to the purchase of bonds, say? A.—Well. I am not aware that there is

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any account in which bonus assets or stocks were entered, called the contingent account?

Q.—Or called anything else? A.—Or called anything else. As far as I can recollect in the regular stock ledgers of the company, there is an account for each such stock, every stock owned by the company.

Q.—When you made this memorandum of bonds and stocks written down or take out of the accounts on 31st December, 1904, and gave this list of bonds and stocks, did you observe that instead of being taken out of the accounts altogether they were transferred to an account of the nature of which we are speaking? A.—Put it this way: I cannot bear in mind just the nature of the accounts, but those accounts were not taken out of the book. They may have been transferred from one page of the ledger to another page of the ledger.

Q.—Do you mean from one account into another account? A.—For instance, take the Cornwall Railway; I think that is one of the items mentioned there?

Q.—That is one of them, yes. A.—That would be transferred to—for illustration—some such account as Cornwall Railway, bonus stock account, in which the par value would be entered and the account value would be entered at zero or one dollar, whatever was necessary.

Q.—Then when Cornwall Street Railway, standing at \$100,000 in such an account as you have named had done to it what you have described as being written down or taken out, are you able to say whether the amount that appeared in that account opposite the item Cornwall Street Railway was carried into another account of any kind? A.—It was carried into another account. It still appeared in the books of the company.

Q.—Carried into another account at the same amount as appeared in the other? A.—It appeared still in the books of the company as stock of the Cornwall Street Railway, at which the account or ledger value would be, say, zero or at a nominal item perhaps of one dollar.

Q.—You see these stocks, the Cornwall Street Railway, for instance, prior to the writing down that appeared as \$100,000? A.—Yes.

Q.—Well, after the writing down you say it appeared as zero, but you are not aware of any other account in which it appears still to be carried at

the \$100,000? A.—None at which it appears to be carried at \$100,000. It could not be carried at \$100,000.

Q.—Your recollection would not enable you to say that the fact was that this writing down was a mere transfer to a contingent account, your recollection does not enable you to verify that? A.—Practically no. The amount still appears in the books of the company at a par value of, say, \$100,000, and a book value of zero or one dollar.

Q.—Were you shown a complete list of the securities appearing in the contingent account or any other account of a like character with a valuation put upon it, showing a value to that contingent account of \$1,980,000? A.—An account or ledger value of that amount?

Q.—A present value? A.—A present market value?

Q.—Yes, of \$1,980,000? A.—The market values are not entered in the ledger, they are only made up periodically.

Q.—In a list shown to you? A.—In a list.

Q.—Shown to you? A.—No, the market values of these securities.

Q.—Is the notebook that you used while you were making this examination among those you produced here yesterday, do you know? A.—It should be, I think.

Q.—See if that can be found. That might assist us. I am asked to put this question to you, Mr. Blackadar. In addition to the active assets shown in the returns of the company to the Department, were you or not shown a list of assets in a contingent account with their market values amounting to the sum that I have named? A.—That point, on the examination of the company, we counted or examined the stock certificates of a large number of different varieties of stocks owned and held by the Sun Life. Those stocks were entered in the books of the company at the par value, but in the books there would not appear, there could not appear the market value at any time. I asked, in connection with the superintendent, who was along, to have a list prepared showing in detail that stock and the market value.

Q.—Now to make your answer complete, according to the question as I understand it, I should ask you this: was this a list of assets which were not in the returns to you? A.—A list not in the returns, yes.

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Q.—You say they did appear with a par value opposite them in some accounts in the ledger? A.—Yes.

Q.—In the various accounts do you say or in one account? A.—They may have been assembled in one account in the general ledger. I do not recollect that point. Very likely they were. I asked to have a list made out and sent to Ottawa. That list I understand came in while I was away from the office, ill. I have not seen it myself as yet.

Q.—Now you state that that was a list of assets which was not included in the Government return? A.—Yes.

Q.—And perhaps you would agree that it was not a list of assets which was advertised as holding up the standing of the company? What would you say to that or, perhaps, you don't know? A.—I don't quite understand the drift of your question.

Q.—What I mean is this: besides making Government returns, the insurance companies, as I understand it, are very up-to-date in keeping their standing prominently before the public? A.—Yes.

Q.—Are you able to say whether or not the fact of the existence of these assets was or was not advertised in that way? You say they were not put into your returns? A.—No, they were not.

Q.—Although you knew of their existence. Then not being put into the return, do you know whether or not they made any advertising use of the fact that such assets existed? A.—I am not aware that they have. I cannot speak positively.

Q.—Then would it be correct to say that by whatever value these assets had, the company was by that value better off than the Government returns showed? A.—I would suppose that the company would be provided—well, I won't qualify it at all—I would suppose the company would be that much better off if the other items in the returns were correct.

Q.—Then, can you identify the list of assets you have spoken of with this list of bonds and stocks written down or taken out of the account; were these stocks and bonds in this list you were speaking of? A.—As I stated before, that list was sent to the office, but I have not seen it. I have before me, however, a list made up a few weeks later.

Q.—By whom? A.—By the company, and forwarded and included in this statement as of 31st December, 1905, a list giving these stocks together with their par value, making no reference to their

market value, and of course, their account was zero.

Q.—Then the statement that came in during your illness, is there any difficulty in getting that? A.—Not that I am aware of.

Q.—Mr. Grant says he will telephone for that. While he is doing so, are you aware of any disposition made of any of the stocks that were written up to the equivalent amount of the writing off? For instance, are you aware of the Georgia Electric having been sold and if so for what figure did it sell? A.—I have a statement here showing Georgia Railway Light Company, par value \$100,000; cost, zero; written up previous to 1905, \$45,000. It was sold during the year for \$90,323.57.

Q.—It was written up to \$45,000 and sold for \$90,000? A.—Yes.

Q.—And that was within the same year? A.—Yes.

Q.—Do you know anything about the value of the other smaller stock there; the Mexican, which was written up to \$40,000? A.—The Mexican Light & Power, par value \$100,000; written up \$40,000. It was sold during the year for \$67,409.38.

Q.—What do you say about the Illinois Traction, will you follow that in the same way? A.—The Illinois Traction preferred stock; the par value of the amount sold was \$1,078,968. The cost of that was \$541,013.83. I would say, this is a statement that was recently received and I have not examined the figures carefully. I would gather from this that in the cost must be included the amount that was written up, that \$473,000. That is probably an error in the statement because it goes on to state that the amount that his sock was sold for was \$904,703.96, showing a profit of \$363,690.13.

Q.—Then, so far as these three zero stocks written up are concerned, they would appear to have been, notwithstanding that writing up, highly profitable assets. A.—Yes.

Q.—The company made large moneys out of them? A.—Yes.

Q.—Twice as much practically as they had written them up to. A.—Nearly, yes, about.

Mr. Hellmuth: Mr. Chairman, Mr. Shepley desires to call Mr. Fitzgerald, and after that Mr. Blackadar will come back and there may be some matters, when I go over the examination, that I would like to ask about, but Mr. Shepley has been good enough to say that he has no objection to my asking a ques-

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tion which arises out of the last examination and which occurred to me on looking at these forms.

Q.—I understand, Mr. Blackadar, that there is a form that you have put in for a return to be made by each company of its assets. You are familiar, of course, with this form. A.—That is the form.

Q.—It is in exhibit 1, and that form, looking it over, seems to call for an absolute return of all the assets of the company; is not that apparently so?

A.—That is a question that I would rather leave to Mr. Fitzgerald to answer. It is a point that does not come particularly under my jurisdiction—if I have any jurisdiction.

Q.—I can quite understand that, but looking at the form, that is the form issued by the Department; not the form in the Act, because the Act does not go into such details as your form does. If you look at the Act you will see that in the Act it does not go through the assets in the same detail as it does in the exhibit? A.—No.

Q.—I am only trying to illustrate why you did not ask the Sun Life or any other company to give you, as is put here under paragraph 8 among the assets, all stocks, bonds or debentures owned by the company details of number, par, ledger and market value of each kind to be given in a separate schedule. How was it that was not asked for? Do you know at all or can you give any explanation? A.—I can hardly answer that. The essential points, the figures that are given, carried out, give the account value and also an estimate of market value over account value of each of these kinds. If any of these assets are supposed to have no account value, then they would not be included in that statement, or if they are supposed to have no market value they would not be included in that statement.

Q.—That would mean then that your understanding would be rather contrary to the document itself, because the request in the document is for the par value, the ledger value and the market value, you see how it reads? A.—Yes.

Q.—Then your understanding would be slightly different from that, you would not think it necessary to give the par value of the stock if it had neither a market value or had been written down in the ledger to zero? A.—That has been the view I understand that has been held by the Department up to the present time

Q.—It might thus be a view taken in the Department, that all the assets that a company was bound to show were just sufficient to make it solvent and that if it had assets, no matter to what extent, beyond that, it was not bound to show them in its returns? Would that be a fair way to interpret the action in regard to assets? A.—Well, Mr. Hellmuth, I think you would get a clearer answer upon that point from the Superintendent than you could possibly get from me?

Q.—But you are the actuary of the Department? A.—I can only give my own private views on that matter.

Q.—You would rather Mr. Fitzgerald would answer that? A.—Yes.

Mr. Shepley: This, Mr. Blackadar, has been sent down to me as the list you have spoken of that came in during your illness. There are two lists there and a letter? A.—Yes.

Q.—This is a letter of the 14th of December, 1905, addressed to Mr. Fitzgerald by Mr. MacAulay: (reads) "I also enclose a list of securities in our contingency fund, giving their estimated market value." Here is a list of the securities in the contingency fund, footing up a market value of \$1,968,411. Does the seeing of that account bring the fact of a contingency account to your recollection at all? A.—The account itself, these names are all familiar as having been examined in the books of the company. I did not take particular notice whether it was called a contingency fund. It may be called anything in the books; it might be called by fifty different names as far as that goes.

Q.—But were these items assembled in a single account in the books, or do you recollect? A.—As far as I can recollect, in the general ledger they are in a single account. But the ledgers that we were more particularly examining during the examination in November dealt with the individual accounts of these stocks.

Q.—Then I see that perhaps there is not a very close correspondence, for instance, among the stocks written down according to your report was Central America \$67,425, and I see an item here, "Central America cost \$67,425." A.—I take that to be the market value, estimated at what it cost in those two particular instances, and then there is "20" and "25," indicating the rate at which

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the company placed the market value at the time the statement was made up.

Q.—That would be so. Then take Columbus, London & Springfield, written down \$145,881, and the statement opposite that is \$151,429. Cornwall \$100,000 written off; carried in here at \$100,000 par value, and market value \$50,000. At all events, with the exception, I think, of the Denver & Southwestern Railway, that seems to contain the names of all the stocks and bonds written down, according to Mr. Blackadar's report. Mr. Smith tells me that the name of the Denver Railway was changed to the Cripple Creek? A.—Yes, I recollect that.

Q.—Then that appears there under another name as Cripple Creek Central. Then I put that in just as it is, I do not separate it. (Exhibit 32).

I wish to say that not only Mr. Smith, who has spoken to me on the subject, but if there are counsel representing any of the other insurance companies who desire to have any questions asked of Mr. Blackadar, I shall be very glad to ask them, so long as they bear upon the phase of the enquiry that I am engaged in.

Mr. Paterson informs me that with respect to the two reports concerning the North American Life he desires to put, through me, some questions to Mr. Blackadar, but he is not prepared to ask them until to-morrow morning.

I have nothing further to ask Mr. Blackadar at present. Of course we do not discharge him at all; he is subject to call at any time.

I am afraid I cannot offer anything further to-day. I think it will be convenient if Mr. Blackadar will be here for such few questions as will be asked in the morning.

Mr. Hellmuth: I understand that he will be able to come back for any questions after Mr. Fitzgerald. I have not attempted to ask questions except that one, and I have not had an opportunity of going over the examination yet.

The Chairman: In order that those interested may be able to make their arrangements, I may say that we will sit to-morrow and Friday and then adjourn until Wednesday.

(Adjourned to Thursday, 22nd March, at 10 a.m.)

Ottawa, Thursday, March 22nd, 1906.

EIGHTH DAY.

The Commission resumed at 10 a.m. to-day.

William Fitzgerald (recalled.) Examined by Mr. Shepley:

Q.—There are certain matters as to which, during your previous examination, you were asked to make inquiry and examination with a view of giving us some further information and because this was one of the matters asked you, I ask you about it. You were asked with respect to certain correspondence regarding overdrafts in the bank at the end of the year, shown not to be overdrafts apparently, by the apparent realization of securities, the entries being reversed early in January. What instances have you found of that, and how old are they? A.—Well, there was really only one instance of an overdraft. There was one case, the first which I mentioned, and it is nineteen years old. It was a case in which premium notes had been entered in the statement as cash. That was not strictly an overdraft; it was a wrong entry. It had been put through the books of the company. They credited the premium notes as cash, and at the end of the year the premium notes were handed back and charged up. That is nineteen years old.

Q.—I think, subject to what the board may think, that we may drop that as being rather stale. Is there anything more recent than that, of that nature? A.—Yes, in 1890.

Q.—What company was that? A.—That was the Canada Life.

Q.—And I think you have collected the correspondence? A.—I have.

Q.—And the documentary evidence upon that subject? A.—I have.

Q.—You can put your hand on it more quickly than I can? A.—There it is.

Q.—I am going to go through the correspondence with you, and ask you such questions as occur to me during the course of reading it. I see on the 11th July, 1890—perhaps before going into that, I should ask what we had better do about this book. There are a great many originals in this book; they are all bound up, and not bound temporarily, but bound permanently. Perhaps it had better be understood that everything that is specifically referred to are in, and matters not referred to will not be in, although the book itself will be in the physical custody of the Registrar. This is a letter from Mr. Fitzgerald di-

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rected to whom? There is no address to it? A.—A. G. Ramsay.

Q.—What was his position in the Canada Life in 1890? A.—He was manager, possibly managing director, I am not certain as to that.

Q.—I find he signs his reply to you as president. A.—Then he was undoubtedly president and manager.

Q.—Mr. Fitzgerald's letter is as follows: "During my recent investigation of the Canada Life." (Reads letter.) Hills and Gates were officers of the Canada Life? A.—Hills was secretary and Gates vice-president.

Q.—"A second question arises as to the real estate held by the company." I think I won't go into that. It was as to the extent to which the company could hold real estate. It was raised in connection with a large office building in Hamilton. The result of the correspondence seems to have been that the statutory power of holding real estate was increased by Act of Parliament, and I suggest that I do not go further into that, as we have matters that are much more important to consider. That letter was written on the 11th July, 1890, and Mr. Ramsay replies to it on the 19th September in a letter addressed to Mr. Fitzgerald. He speaks of the delay. Do you remember how the delay was explained? A.—I do not, indeed. I thought everything relating to the subject was in there. There may be another letter coming in advance.

Q.—Or it may have been a verbal explanation? A.—Yes.

Q.—That is all the correspondence that you have upon that subject? A.—Yes.

Q.—Has there been any recurrence of the thing that was done there to your knowledge? A.—There has not.

Q.—Or of anything in kind resembling it? A.—Nothing in kind resembling it that I have any knowledge of whatever.

Q.—The result, then, seems to have been that upon your observing this you called attention to it, and you had this letter promising that it should not occur again, and it has not occurred again? A.—It has not occurred again.

Q.—Do you say that absolutely, or do you say that with the reservation that if such a thing has been done you have not discovered it? A.—Probably the last mentioned would be the correct thing; if it has occurred I have not discovered it.

Q.—Either in the case of this company or any other subject to your inspection? A.—No; well, wait. I think probably there are other things that will come out later that probably my answer may not have been entirely the correct one, but that will come later in reference to a matter also contained in these books.

Q.—That I shall take up during the day. You refer to the Manufacturers' Life? A.—Yes, I refer to the Manufacturers' Life.

Q.—That I shall take up; that has some very great differences from this transaction, as well as having some resemblances? A.—As well as having some similarity.

Q.—That we shall take up subsequently, but subject to that, you make the answer you have said, that so far as you have detected that has not occurred? A.—Yes.

Q.—Then the next matter that is mentioned in the memorandum handed to me of matters that you were to inquire into was with regard to investments larger than the statutory authorization. What material have you for us in that respect? A.—I have a letter written to Mr. Goldman of the North American, and I have Mr. Goldman's reply. I have a copy of a letter written to Mr. T. B. McCauley of the Sun Life, and Mr. McCauley's reply. I have a letter to Mr. Burke, of the Royal Victoria, and Mr. Burke's reply, and then a second letter to Mr. Burke relating to the same subject.

Q.—Is that, so far as you have discovered, all the correspondence upon that subject? A.—Upon that subject; that is a larger amount of securities than under the statute the companies are authorized to invest.

The Chairman: Q.—Foreign security? A.—Foreign security.

Mr. Shepley: Q.—This correspondence is all during the current year? A.—Yes.

Q.—And with reference to the returns made by the companies for the year 1905? A.—Yes.

Q.—The letter to Mr. Goldman is dated 14th February of this year, from Mr. Fitzgerald. "I desire to call your attention to the following facts—(Reads letter). Before going any further I have a question or two I want to ask you. In the first place, did this subject, the subject of the extent of the foreign investments of any particular company or

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of the companies generally, ever engage your attention until the return of 1905?

A.—It did, and I discussed the subject with another company. I do not remember that I ever did with the North American Life, because I do not think it ever came prominently to my mind that they had invested more than they were entitled to, but I did in the case of another company.

Q.—And how long before this would that be? A.—Well, that would be, as I recollect it now, in 1904.

Q.—With reference to the business of 1903? A.—With reference to the business of 1903; that is my recollection of it.

Q.—Was that discussion a verbal discussion, or was there correspondence about it? A.—It was a verbal discussion.

Q.—Was it always possible for you by a scrutiny of the returns, assuming the returns to have been exact, to ascertain the extent of the foreign investment? A.—No, not readily.

Q.—Illustrate for me by taking some return, if you can do it without taking too much time? I would like you to illustrate what you mean when you say "not readily"? A.—Well, it is not always possible from the return as it appears to tell precisely which is a foreign security, it is not always possible to do that. The location of the particular corporation that issues the security is not always stated. Sometimes it is, and sometimes it is not. Then in order to ascertain precisely where such a security as that belongs it is necessary to ascertain by some means or other just where the corporation exists.

Q.—Then by scrutiny alone you say it is not always possible? A.—No, it is not always possible.

Q.—To scrutiny you must add enquiry? A.—Yes.

Q.—Now, then, I have to ask you, what has been your custom with respect to scrutiny and enquiry in that respect? A.—As a rule I, of course, have scrutinized the matter and have made so much of an enquiry as it is possible to make. I think I have even asked the company to indicate which were foreign and which were not.

Q.—Then with scrutiny and enquiry such as you made, you did not detect, except in one instance before this, that the foreign investment exceeded the

limit? A.—Well, in the case I refer to, it had exceeded the limit.

Q.—Except in the one case? A.—Yes, in the case of the one company.

Q.—That you think was in respect of the work of 1903? A.—Yes.

Q.—Will you be good enough to tell us what company that was? A.—The Sun Life.

Q.—And with whom did you have the discussion you speak of? A.—With T. B. McCauley, the secretary.

Q.—Tell us, as nearly as you can recall it, the purport of the discussion? I want your attitude and his attitude? A.—My attitude was simply this: that the company was not complying with the Statute. The Statute laid down a certain proportion to which they might go, and they could not go further. Mr. McCauley's attitude was about to this effect: that while they had exceeded the amount, he thought it in the interest of the company that they should do so, that they had found a difficulty in getting Canadian investments suitable in order to invest their funds, and that they thought it better and more in the interest of the company to get such investments as they had taken.

Q.—That was an argument, so far as one could speak of it secondhand, which said, "We must break the Statute because it is expedient?" A.—Well, that is about the effect of it. I think that was the whole effect of it.

Q.—Then what was the result of the discussion? A.—Well, it did not result in anything, except a promise to endeavor to reduce it. I think Mr. McCauley on the occasion I refer to said, "Well, we will not invest any more, and the result will be that we may at the end of the year be compelled to show a very large amount of uninvested funds in our hands, because we cannot get suitable investments for them."

Q.—That you say was in 1904, in the course of your inspection? A.—Well, it was not in the course of the inspection; it was in the course of a scrutiny after the inspection, and my calling upon Mr. McCauley to discuss the matter with him.

Q.—Could you fix the date of it any more nearly than saying it was in 1904? What time of the year would that be? A.—I should think in August, or it might be within the first three or four days of September.

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Q.—Do you recall, or can you tell by looking at the return for 1903 what the extent of the excess over the limit was? A.—Well, I cannot recall it. I would only have to look it up.

Q.—Was it trifling or very substantial? A.—It was substantial.

Q.—And what you got was a promise to endeavor to reduce it? A.—Yes.

Q.—I won't call it a veiled threat, but a statement that probably at the end of the year their return would disclose uninvested funds? A.—Yes, that statement was made to me.

Q.—A dearth of Canadian securities, no opportunities of investing? A.—Yes.

Q.—And uninvested funds at the end of the year might be expected, while the foreign investments might be reduced? A.—Well, in connection with that I should say again that this particular company persistently—well, probably I will not say persistently, but certainly was agitating for a change in the law which would permit an investment of a larger amount.

Q.—What was the nature of the agitation? A.—Well, probably letters to the Department, I think possibly—

Q.—A note will be made of that—literature bearing on the question of increasing power of foreign investment? A.—Does that simply refer to correspondence from the Sun now, or any other quarter.

Q.—Generally? A.—Very well.

Q.—Are you able to say, or would an examination of the return for 1904 enable you to say what the result of the discussion between yourself and Mr. MacAulay? A.—I cannot speak positively without examining the return, but my impression is that it was considerably reduced.

Q.—And was there the uninvested moneys on hand? A.—I do not remember that there were.

Q.—If you will make a note of that, I would like to have you have somebody make a statement with respect to that which you can yourself verify? A.—Yes.

Q.—Both as to the returns of 1904 and the returns of 1905? A.—Yes.

Q.—I want to get the state of things when you were discussing it—the expenditure and the investment when you were discussing it? A.—Yes.

Q.—Did you ever make any reports to the Minister upon the subject of this discussion in 1904, and upon the attitude

taken by the Sun Life? A.—Not in writing, I did not make a written report, but I did mention the subject to the Minister.

Q.—Shortly after the time of the discussion, or when would that be? A.—Well, I would not like to attempt to fix the date, because, as you know, the Minister of Finance has been away from the city a very great deal in the last—

Q.—How was that in 1904? There was a long session in 1904? A.—There was a long session in 1904, and of course he was here; I have forgotten when it closed. Then, besides that, it will be understood that when Mr. Fielding is here he is a wonderfully busy man, and it is with very great difficulty that any person can see him for any length of time.

Q.—At all events, you say you did discuss this with him? A.—Yes.

Q.—Or made a report upon the subject to the Minister? A.—Yes.

Q.—I will probably come back to that so as to embrace more than one topic in it. Then we have Mr. Goldman's letter in reply. That is already in another exhibit and has been read, but I read it because I want to ask you a question or two about it, perhaps. (Reads letter.) "In the first place the loans made on the United States securities to which I call your attention are not lent outside of Canada, and therefore do not come within sections 3, 4, 5 and 6 of the Insurance Act." We will take the Act and get the exact force? A.—Clauses 3, 4 and 5 of section 50.

Q.—Yes? A.—Shall I read the clauses?

Q.—No, if you have them before you, that will do. The third clause permits a life insurance company to invest in foreign securities outside of Canada. (Reads clause.) What knowledge have you as to the requirements of the foreign country in question here with respect to deposit and investment? A.—The amount deposited in the case of this North American was deposited, I think, with the State of New York.

Q.—And it is the amount mentioned in your letter, \$264,191.60? A.—I would not like to say from memory.

Q.—And the company has on deposit in New York State Canadian securities to the value of \$2,641.91. You have the requirements of the Statute of New York within the meaning of section 3 presumably to the extent mentioned in your letter; would that be right? A.—

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Yes. The correctness of the figures I think you will observe is not questioned.

Q.—Just for a moment I ask your construction of this question. Supposing there is a requirement of the State of New York that a certain deposit or reserve shall be maintained on deposit with the State authorities, what is your view and what is the departmental view as to the \$100,000 provision? Has that any operation in your view? A.—That has not any operation.

Q.—In your view the company would not be entitled to add \$100,000 to maintain the foreign branch in addition to the amount which it was bound to deposit as a reserve? A.—No, I think the meaning of that section seems quite plain; where it is only expedient to maintain it, it may be \$100,000, but no more, but if it is required by the law of the country it may be a larger amount.

Q.—It may be what the law requires, but they cannot add to that on the ground of expediency? A.—No.

Q.—That is your construction? A.—Yes.

Q.—And the construction you have always maintained as the head of your Department? A.—Yes.

Q.—The fourth subsection provides that "any such life insurance company doing business in the United States"—(Read subsection.) That is including a Government deposit? A.—Yes.

Q.—Or including \$100,000 if that is put in for the maintenance of the branch on the ground of expediency. Was it with reference to that section that you included ten per cent. upon the reinsurance reserve on the foreign business and arrived in your letter at the amount which might rightly be invested in the United States? A.—I am under the impression the North American does business elsewhere than in the United States. I am not very certain as to that, but I think it is the case.

Q.—At all events, it was the reinsurance reserve on foreign business, plus ten per cent., that was the basis of your letter as the authorized foreign investment? A.—Yes.

Q.—And is that the way in which you, for the Department, have construed this section? A.—Yes.

Q.—Then I want to deal with all the sections referred to by Mr. Goldman. Section 5 says "Any such life insurance company doing business in the United Kingdom"—(Reads section). Do you

know whether the North American Life does business in the United Kingdom? A.—By the return given me I see they do not do business in the United Kingdom.

Q.—Then that clause does not apply to that at all? A.—It would appear not to apply to them.

Q.—By the way, I may forget it, and it is a little out of order now, but I should like to ask you, as having something to do with the framing of this Act, I would like to ask you the reason for limiting the class of investments in the United Kingdom, and making the power to invest there very much more strict than the power to invest under section 4 in the United States. You see that it is so? A.—I see that it is so. The fact seems to be this: That the North American had certain powers—well, most of the companies doing business outside of Canada, doing business in Great Britain, had certain powers in their charters; the North American had an Act of Incorporation, at least an amending Act, an Act amending their Act of Incorporation passed in 1897. The Canada Life had previously obtained a similar Act. I think the wording of this section is substantially the wording that was in the sections of these two Acts. There was never any demand for any extension of the power so far as—

Q.—So far as the United Kingdom was concerned? A.—No.

Q.—As I understand you to say, section 5, with respect to the United Kingdom, practically followed the charter powers of the company, and no extension in respect of the United Kingdom was asked? A.—No, not as far as I remember.

Q.—And the request for legislation increasing the range of securities was altogether in respect of the United States? A.—As I remember, it was.

Q.—That is an explanation, of course? A.—Yes.

Q.—That has not any bearing on what we are discussing, and we shall have to come back to it when discussing the larger question. Is it your view, before we take it up at all in detail, that section 6 has any application whatever to the North American Life? A.—I think it has.

Q.—You think it has? A.—Yes. Wait, now, I may be wrong there. On reading it carefully now I do not think it has.

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Q.—Your idea would be that in order to make section 6 apply, the company in question would have to be doing business, not only elsewhere than in the United Kingdom and the United States, but also in the United Kingdom and in the United States? A.—I think that is the construction.

Q.—And unless the company is doing business in the United States, in the United Kingdom and elsewhere—all three—that section does not apply? A.—That section does not apply. I think that is correct.

Q.—Then we will return to Mr. Goldman's letter. I will read that again, in view of the statute. "In the first place, the loans made on the United States securities and to which I call your attention, are not lent outside of Canada." What did you take him to mean by that? A.—Mr. Goldman's construction of the Act is that it is quite legitimate to lend upon foreign securities if the loan is made in Canada, and as I take it, the securities held in Canada, possibly made to a Canadian, to some person here, that it does not apply; that is the construction he has put upon it.

Q.—Do you agree with that? A.—I do not. I do not think that is the meaning of the statute.

Q.—Have you ever acceded at all to that view? A.—I never have acceded to it.

Q.—Then departmentally you reject that theory? A.—I do.

Q.—Then the next paragraph of the letter is, "The loans referred to are upon call, and that for \$273,000"—it is \$277,000 in your copy of the letter and \$273,000 in his—"Has been paid off since our report. It is, therefore, unnecessary to say more respecting the same." It is not for me to express an opinion, but what do you say as to the statement, "It is unnecessary for us to make any excuse if when we find it we sell out an objectionable security"? What do you say to that? A.—I do not think it is an excuse at all.

Q.—"The small balance is held as collateral to the Winnipeg electrical loan, and will be taken up immediately"? What does he mean by the small balance? A.—Deducting from the loan the amount which he says is paid off, the \$273,000.

Q.—Deducting that from the \$1,110,000, and then subtracting the \$406,000, which they were entitled to invest from that, he calls the remainder a very small balance. It looks like a substantial

balance? A.—I think perhaps you misunderstand Mr. Goldman. He speaks in the letter which is not in—there is a loan mentioned as so much loaned—it is one of the items, and I have forgotten what it is—the sums that went to make up the \$1,110,000.

Q.—Those were the United States bonds owned by the company \$569,000, loans upon United States securities \$277,300, and the New York deposit in Canadian securities \$264,191.60. These together made up the million? A.—I will tell you what he means; there were \$277,000 loaned upon certain securities there, and of that \$273,000 had been paid off, and the difference is the trifling sum he speaks of.

Q.—"The deposit in New York State is in Canadian securities, and, therefore, cannot be construed in any way as a foreign investment"; what do you say as to that? A.—I say it is not a foreign investment, but it is deposited outside of Canada under subsection 3, and, therefore, must be counted in.

Q.—The statute says so? A.—Yes.

Q.—"You call attention to the fact that amount of bonds of United States corporations owned by this company, \$509,000." (Reads.) You have already given me your construction of the statute? A.—Yes, as to the \$100,000.

Q.—You do not agree with that? A.—No.

Q.—You never did? A.—No.

Q.—"As we are authorized to transact business in five other States besides New York." (Reads letter.) A.—Possibly that point may be arguable, although I never so construed it.

Q.—He does not suggest that the authority to transact business in the five other States is coupled with the obligation to put up a deposit; that obligation must exist according to your construction of the statute? A.—Yes, I think that obligation must exist, to extend the power of foreign investment.

Q.—That seems to be the nature of the correspondence, but, of course, it is very recent? A.—Quite recent.

Q.—You have not made any reply to that letter? A.—I have not.

Q.—Is it proposed to departmentally notice the fallacies in it? A.—I have not yet arrived at a conclusion in regard to it.

Q.—Is the matter still under advisement? A.—Yes. Just here it might be proper to remark that there is a possibility of an amendment to the Insurance Act in such a way as would alter the proportions of securities that might

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be invested, or to create a new basis upon which funds should be invested, and later I would like—I think you have already asked for it—to bring down the correspondence relating to investments, or does that refer simply to—

Q.—I intend to take up that question with you later on. I want to deal, however, with the suggestion of legislation, so as to cover all the subjects that will be embraced in it, and therefore, I am clearing things out of the way before I come to that. Now, just one question before I leave the correspondence with Goldman. Do you suggest to the Board that you have no effective means under the powers with which you are clothed to deal with a question of this sort—to deal with it against the will of the insurance company offending? A.—That is my construction of the statute, that I have no means of enforcing any request that I might make; if I asked the company to get rid of these securities that I have no means of enforcing.

The Chairman: Q.—In the event of their refusal are you powerless? A.—Yes.

Mr. Shepley: Q.—That is your view of the statute? A.—Yes.

Q.—Do you consider—I do not want to deal with that *in extenso* just now, because I shall have to take it up again in connection with a wider range of questions—do you consider that the necessity for a renewal of the license does not put any power in your hands in that respect? A.—I do not think it does.

Q.—You do not think that you could refuse to renew a license to a company which is violating the statute? A.—No.

Q.—And deliberately and defiantly violating the statute? A.—No. The clause to which you refer, I think, is in section 25, if I remember rightly.

The Chairman: Q.—Clause B, of subsection 10 of section 25? A.—Yes. “If liabilities of Canadian Life Insurance Company exceed assets, license may be withdrawn.”

Mr. Shepley: Q.—That is a ground for withdrawing the license? A.—Yes.

The Chairman: Q.—The specific ground mentioned in this clause? A.—Yes.

Mr. Shepley: Q.—You do not grant a license in the first instance unless in all respects the company has complied with the Act? A.—I do not.

Q.—Do you think you are bound to renew if it is not complied with? I would like you to think that over between now and to-morrow, or when you have time? A.—If you are going to give

me until I have time, it will probably not be to-morrow.

Q.—I shall have to ask you some further questions about the scope of your power, so we will pass on. The next matter is with the Sun Life. On the 19th February of this year you write to Mr. Macauley—(Reads letter). Your computation set out in that letter was based upon your construction of these various sections that you have already given? A.—Yes.

Q.—And the figures are taken from the returns of the company? A.—Taken from the returns.

Q.—Then on the 22nd February, Mr. Macauley replies to that letter (Reads) Now, let us deal with that. What do you say as to that contention, first the minor contention as to the \$20,000 Chicago and Milwaukee bonds; that he says being already counted in the foreign securities ought not to be recounted when it is part of the British deposit. What is your idea with regard to that? A.—It is not—I do not think the sum is included a second time in the way that is made up; of course, I suppose, it should not be counted twice, but I am aware that it is so.

Q.—His statement is that it appears; it is not of very much importance; it is a matter of detail; he says it is already included in corporation bonds? A.—I have a list of the bonds that made it up.

Q.—Just see if the Chicago and Milwaukee \$20,000 is there? A.—Chicago and Milwaukee Railway Company, \$192,540. Mr. Grant, by whom these figures are made up, tells me that probably it does include it; so Mr. McCauley is possibly right there.

Q.—Your idea may be that to the extent of \$20,000—A.—That there may be an error there in regard to that.

Q.—With regard to the major contention made under subsection 6, that you are not to include British deposits at all, what do you say to that? A.—That raises a point which I never have considered.

Q.—You have never considered that point? A.—No, I may say it came to my attention first when that letter was received from Mr. McCauley, because you will observe that here is a difference in the wording between that subsection 6 and the other subsections. In subsection 5 you will find “Including any sum invested or deposited.” Then we have “Invested or lent outside of Canada” are the words in subsection 6.

Q.—It has also the words “Invested or deposited under the authority of sub-

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sections 3, 4 and 5" However, you have not considered that? A.—No, I have not.

Q.—That will be a matter of construction which the court can deal with if necessary? A.—If it became necessary for me to construe that I should apply to the Department of Justice for their interpretation.

Q.—That would be the proper course for you to take? A.—Yes.

Q.—"The next point to which I would draw your attention is the change"—(Reads letter). What do you say to that? A.—I am unable to agree with that contention.

Q.—You do not agree with it, for the reasons you have given me when we were considering the other case? A.—No.

Q.—I trust you will pardon me"—(Reads). Have you given that paragraph any consideration? A.—I have not; that is one that always comes up when the question of powers of investment are being considered.

Q.—There has always been, as I understand your answer to mean, there has always been this question raised as to discriminating against Canadian companies in respect of powers of investment? A.—Yes, there has always been that question raised. I have a considerable amount of correspondence on that subject.

Q.—That is a question, of course, which is many sided. Are you able to say whether or not the Department, apart from the statute as it now stands, has any policy upon that subject? A.—Well, I would not like to undertake to say what the policy was; understand, it is not my policy; it is the policy of the Minister, and I am not able to say what his policy would be on that subject.

Q.—When we come to deal with the question of proposed legislation, I understand there has been some legislation which you have had under way for some time? A.—Yes.

Q.—When we come to discuss that, perhaps we will be able to get at all events what your views have been from the legislation which your propose? A.—Yes.

Q.—Then I pass that for the present. Then he goes on to argue from the interest of the policyholder. "We also feel strongly"—(Reads). Have you formed any view about that? A.—I have not. The whole subject of what are proper investment has not been definitely decided upon.

Q.—I should say from the list of the securities of the Sun Life we saw yesterday that some of the American cities served by the Utility Company, whose bonds are held, are not very much larger than some of the Canadian cities? A.—That may be so.

Q.—"While we have taken the liberty of expressing our views"—(Reads). That letter was dated 22nd February, and does the same observation apply to that as to the other correspondence that you have not taken up since? A.—Yes.

Q.—Then the other correspondence you have given us is with the Royal Victoria. On the 16th March of this year you wrote to Mr. Burke, "I desire to call your attention"—(Reads). That is a somewhat different question; it is a question as to an investment altogether unauthorized? A.—Altogether.

Q.—And not a question with respect to an excessive investment in authorized securities? A.—It is a different case. This company is not doing business outside of Canada.

Q.—That question does not arise, and it is a pure question of power under section 50 to invest in this particular kind of security? A.—Yes.

Q.—125 shares of Detroit Railway Company? A.—Yes.

Q.—We will see what he says as to that. On the 20th February—that may not be the date. Your letters is the 16th March? A.—Well, the typewriter has evidently made a mistake in the month in making the copy.

Q.—Your letter ought to be February 16th? A.—Yes.

Q.—Or February 19th? A.—Yes.

Q.—You will have that rectified? A.—Yes

Q.—This letter seems to be in reply to that, although it is dated 20th February. "I beg to acknowledge receipt of your favor of 19th instant"—(Reads). Was this the first time this company had ever offended in this way? A.—It is the first time.

Q.—Then on the 5th March he writes again. "Continuing our letters"—(Reads). Are those all authorized securities? A.—I think they are, sir.

Q.—He does not say what Light, Heat & Power that is; is that the Montreal company? Perhaps you have not had time to verify that? A.—No.

Q.—You have not had time to verify the securities mentioned in Mr. Burke's

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letter of the 5th March as being authorized securities? A.—No.

(Special reports and communications (large volume) are marked Ex. 33. Correspondence Ex 34).

Q.—Then, taking up the memorandum of matters to be looked into, the next subject I find is correspondence with regard to the dispute which the Canada Life as to the power of investment? A.—This is it.

Q.—This is a bundle of correspondence or papers; first you submitted to the Department of Justice on the 15th December, 1903, a case for opinion. On the 30th December, 1902, that opinion was given by the Deputy Minister. On the 2nd February, 1906, you wrote again to Mr. Newcombe, enclosing a copy of a letter from Mr. Watt, treasurer of the Canada Life Investment Department, dated 19th May, 1905, and also a copy of an opinion of the counsel for the company? A.—Yes.

Q.—Is there anything further? A.—There is nothing further. The Deputy Minister has not replied to that last letter.

Q.—Your last letter, being dated 2nd February, it has not, up to the present time, been replied to? A.—No.

Q.—And is that all the correspondence upon that subject? A.—That is all there is.

Q.—How did the question come to be mooted between you and the Canada Life? How did you come to ask for an opinion, because there does not seem to be any correspondence with the Canada Life on the subject? A.—No, I think the letter to Mr. Newcombe will show how that was. It was frequently spoken of; there were two companies who were spoken of, the Canada Life and the Sun; they have very much wider powers than the other companies, and the other companies would say "I think we should be put on a better footing," and therefore would ask for wider powers. That is set out in the letter to Mr. Newcombe.

Q.—I propose to read your statement of case, omitting the setting out of the statute, but calling attention to the provision which you had set out. "The Canada Life Insurance Company"—(Reads). Your idea is, I suppose, that the public securities of this Province—the words "Of this Province dominated the section? A.—Yes.

Q.—That was the old Province of Canada? A.—Yes, consisting of the Province of Ontario and the Province of Quebec.

Q.—Let me see if we understand alike the second and third questions; the second question is based upon the view that unless a bank or chartered company came into existence by virtue of the legislative authority of the late Province of Canada before Confederation, it would not be a bank or chartered company to whose securities the power would extend? A.—That was the purpose.

Q.—That was the view upon which the second question was founded? A.—Yes.

Q.—Then the third question is a question which is supplementary to that, where the original Act can be construed as authorizing investment after confederation in securities of the two Provinces which formed the old Province of Canada? A.—Yes.

Q.—When I say of the two Provinces I say securities of incorporations by the original constituents of the late Province of Canada? A.—Yes.

Q.—Then you proceed, "In the event of your answer to question one." (Reads.) That is whether your original idea that the words "this Province" dominated this section is correct, or whether those words may be disregarded in dealing with the subsequent power? A.—Yes.

Q.—The statement of case winds up, "I am assuming that the." (Reads.) Question 5, is this assumption well founded? That if they could invest in stocks you thought that was a wide enough power to enable them to invest in bonds which were in the nature of stock obligations? A.—Certainly.

Q.—Then the opinion of the Department of Justice, 30th December. (Reads.) Your main view, then, was sustained by the Justice Department? A.—Yes.

Q.—"Secondly, I think that the stocks of the banks and other chartered companies mentioned in that Act." (Reads.) What did you understand by that last limitation, "So far as they relate to securities issued under and by virtue of enabling legislation"? A.—I have had difficulty myself in construing that clause, as to precisely what it meant, and I had at one time thought of getting an explanation of it.

Q.—The main part of it is clear, that the Justice Department is of the opinion that the stocks of banks and other chartered companies mentioned in the Act must be the stocks of banks and other chartered companies deriving their

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corporate powers from the Legislature of the old Province of Canada; that was plain? A.—Yes.

Q.—The answer to the third question is: (Reads.) "Except in so far as securities include such mortgages." That, of course, cuts the powers of the company down very considerably, if it is correct. Then question 4. (Reads.) The answer to question one being affirmative, no answer is required to that question. The answer is no, that it has not power, irrespective of the territorial limit. Question 5, "I do not think the expression 'stocks' includes bonds of the chartered companies referred to." That was the opinion? A.—Yes.

Q.—On the 2nd February of this year—how did the question come up a little more than three years later? What was the occasion for taking the matter up again? A.—It was in this way: When I had obtained that opinion I happened to be in Toronto; I believe the opinion was sent to me in Toronto. I was in Toronto at the time. It was either sent to me there, or else I was going there, so that instead of sending it by mail I took it and delivered it to one of the officers of the company.

Q.—You showed them the opinion? A.—Yes, with the request that it should be dealt with at a very early date. Well, it was not dealt with for quite a long time, and my recollection is that I had to ask to have the solicitor of the Canada Life deal with it. Well, ultimately he did so, and there is a letter from Mr. Watt, the treasurer of the company, enclosing copies of Mr. Bruce's opinion.

Q.—Mr. Bruce's opinion seems to have been given on the 12th May, 1905? A.—Yes.

Q.—That would be two years and a few months from the time you had shown them the Deputy Minister's opinion? A.—Yes.

Q.—Then on the 2nd February you wrote to the Deputy Minister, "I have the honor to send you"—

Mr. McCarthy: Have you the letter from Mr. Fitzgerald to Mr. Newcombe on the 10th September, 1902?

Mr. Shepley: I have not.

Mr. McCarthy: And there is a letter of the 5th January, 1905. That letter of the 5th January shows what brought forth Mr. Bruce's letter.

Mr. Shepley: Q.—Will you look at that? That is said to be a letter of September, 1902, which antedates your case for an opinion. Do you recognize

that? A.—That seems to be a letter, yes, that I wrote to them.

Mr. Shepley: Subject to verification. I am going to use it. This letter of the 10th September, 1902, precedes the submission of the case to the Department of Justice? A.—That will come up in another inquiry altogether. That comes up under the last clause, "Correspondence, opinion Department of Justice, re subsection B on scope of section 50." That will come in under the last clause.

Q.—You have allocated this correspondence to another subject? A.—Yes, as I think it clearly belongs to another question, because the question which arose regarding the Sao Paulo came under subsection 30 and they justified the thing on the ground of their original charter.

Q.—So that we have it in another connection? A.—Yes.

Q.—We can put the correspondence together afterwards, if there is a logical connection between these questions. We can go on in the way you have arranged it. I do not want to get you away from the method in which you have considered it. "I send you a letter from Mr. Watt." (Reads letter.) Mr. Watt says that he encloses copy of solicitor's opinion on the investment powers of the company. (Reads letter.) Then the opinion of Mr. Bruce is dated 12th May, 1905, addressed to Mr. Watt, treasurer of the Canada Life. (Reads letter.)

Mr. McCarthy: The reason I gave you those two letters is that they became interwoven in that way.

Mr. Shepley: Mr. Fitzgerald has arranged them in another way.

Mr. McCarthy: It does not make any difference.

Mr. Shepley: Q.—You say that since you sent Mr. Bruce's opinion to Mr. Newcombe the letter has not been dealt with in the Department of Justice? A.—No.

(Correspondence Ex. 35.) As a matter of fact, I sent to the Department of Justice and got back these papers from them, so that when the Commission is through with them I will have to return them to the Department of Justice again.

Q.—I pass over the next item in point of time: "Correspondence with the Sun Life as to change in rate from 4 1-2 to 3 1-2"; that I pass over. "Correspondence, opinion Department of Justice, re subsection B on scope of section 50." What securities are you dealing with

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there? A.—Sao Paulo and Mexican Light and Power.

Q.—I see on the 10th September, 1902, you took up with the Department of Justice the question of the Sao Paulo Tramway Light and Power Company? A.—Yes.

Q.—Will you tell the board, as you remember it, the circumstances which led to your taking the question up at that time? A.—I have no distinct recollection of the matter, but I presume because a great deal had been said in the papers at this time about the bonds of that company and also, and also the company had some of them amongst their list of securities. The question was raised whether they were a Canadian security in the first place or a foreign security.

Q.—Tell me what your opinion was with respect to the Sao Paulo Tramway Light and Power Company when you took the matter up. In the first place, how was the company incorporated? A.—The company was incorporated in Canada; it was incorporated, I believe, by the Province of Ontario.

Q.—Under the Companies' Act, by Letters Patent issued under the General Act? A.—I think that is the case.

Mr. McCarthy: The letter of the 10th September sets it forth.

Mr. Shepley: Q.—And what was the sphere of operations of the company? A.—It carried on no business in the Dominion whatever.

Q.—Where did it carry on its operations? A.—I believe in Brazil.

Q.—Was its corporate function what is indicated by its name, Tramway Light and Power? A.—That was only a portion of its powers.

Q.—But that would indicate generally that it was a company intending to take advantage of electric power generated from water power? A.—Yes. I think the case stated for opinion shows exactly the situation.

Q.—Then securities of that company had been found among the investments of some insurance companies? A.—Some insurance companies.

Q.—And you took up the question with reference to the authority conferred by the Act to deal in that class of security? A.—That was the idea.

Mr. Shepley: Better make a note of that; correspondence between Mr. Fitzgerald and the Canada Life between 5th and 18th January, 1905.

with the securities of this class of company if the security is a foreign one? A.—If it is a foreign one, I think not.

Q.—This company is not of the class whose securities can be dealt with? A.—The information that I wanted was whether being a company such as this, although incorporated in Canada, was doing business outside of Canada, whether that came within the meaning of clause B of section 50.

Q.—Clause B of section 50 being.— A.—“Every such society or company being incorporated in Canada”; it was incorporated in Canada, but that was the only Canadian feature in connection, as I understand the matter, and therefore it was that it was submitted to the Department of Justice.

Q.—On the 10th September you wrote this letter, stating the case. “Re Sao Paulo—(Reads letter). Then that was in September, 1902. I see the opinion of the Department of Justice is not given till the 5th January, 1905? A.—Yes.

Q.—Have you any means of explaining the apparent delay? A.—No, I cannot. They found a difficulty, I presume, in arriving at a conclusion. I have nothing else to suggest.

Q.—You do not know of any communications in the interim upon the subject between your Department and the Department of Justice? A.—No.

Q.—Are you aware whether or not there was any communication between the Department of Justice and the insurance companies upon the subject in the interim? A.—I am not aware of any, except I think that the opinion states that Mr. Lash concurs in the opinion. I think it is so stated in that opinion.

Q.—In the opinion of Mr. Newcombe? A.—I think it is stated there.

Q.—Mr. Watt had said that Mr. Lash concurred in Mr. Bruce's opinion on the other point, you know? A.—Yes.

Q.—Then the Department wrote on the 5th January, 1905. (Letter read.) The next letter I see here is a letter from yourself to Mr. Watt. (Letter read.) What was that report of the Tramway Light and Power Company? A.—There must be a letter omitted there. It was no doubt a letter enclosing a copy of the opinion of the Department of Justice.

Mr. Shepley: Better make a note of that; correspondence between Mr. Fitzgerald and the Canada Life between 5th and 18th January, 1905.

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Witness : Probably I was in Toronto and saw Mr. Watt, and told him what the opinion was, and thereupon, upon my return, I sent it.

Q.—He sent you a letter on the 17th, because it is referred to in yours of the 18th? A.—He wrote me, reminding me, probably, of my promise to send it.

Q.—We will get it later on. Then you sent him a copy of that letter on the 2nd February, and on the 3rd February he writes acknowledging. On the 4th February you write to Mr. Watt. 7th February Mr. Watt to you; 8th February Mr. Fitzgerald to Mr. Watt; 10th February Mr. Watt to Mr. Fitzgerald; 11th April Mr. Fitzgerald to Mr. Watt; 13th April Mr. Watt to Fitzgerald. (Letters read.) Then a letter from Mr. Fitzgerald, going back again, 31st January, about the same matter to Mr. Dexter, Managing Director of the Federal Life. (Letter read.) February 1st Mr. Dexter to Mr. Fitzgerald; 9th February Mr. Fitzgerald to Mr. Goldman, Managing Director of the North American. Then Mr. Goldman to Mr. Fitzgerald, 1st March, 4th March Mr. Fitzgerald to Mr. Goldman acknowledging. Then Mr. Fitzgerald to Mr. Junkin, Managing Director of the Manufacturers. Then Mr. Junkin's reply. Mr. Fitzgerald to Mr. Junkin 13th February. Then a letter Mr. Fitzgerald to Mr. Bradshaw of the Imperial Life, 17th February. (Letters read.) Then he states the opinion of the Minister of Justice, and that Mr. Lash concurs in it. There was no reply to that letter? A.—Unless it is there, I am not in a position to say there was a reply.

Q.—In regard to the Sao Paulo, that correspondence upon the subject, and the opinions you have from the Minister, and you have not yet received, apparently, any opinion or any copy of any opinion given by counsel for the Canada Life, which was contemplating taking the opinion of counsel. Mr. Bruce's opinion you have not seen; at all events, it is not amongst these papers?

Mr. McCarthy: That one you read was Mr. Bruce's—"And if I am correct in the opinion advanced before, the Sao Paulo bonds," etc.

Mr. Shepley: Oh, yes, that is right.

Q.—That is so much for the Sao Paulo; which of these companies have acceded to the view that has been taken departmentally, and has disposed of its bonds, and which of them is hold-

ing? A.—I think they have about all disposed of them.

Q.—The Canada Life also? A.—My impression is that they have. Mr. Grant reminds me that they have disposed of them, as he remembers it.

Q.—Now, the other company, as to the powers to invest in the securities of which you had the correspondence collected, is the Mexican Light & Power Company. I suppose you took this matter up for the same reason that you took up the Sao Paulo? A.—Yes.

Q.—That you found in the investments for the year 1904? A.—Yes.

Q.—And you took it up early in 1905? A.—Yes.

Q.—You asked the Deputy Minister in a stated case of the 14th February for his opinion? A.—Yes.

Q.—On the 31st March, 1905, Mr. Newcombe writes. (Reads letter.) Then on the 8th April you wrote to Mr. Macaulay, of the Sun Life, enclosing a copy of that opinion? A.—Yes.

Q.—On the 10th April he replies. (Reads letter.) Then you write on the 12th April to the Deputy Minister. (Letter read.) On the 15th April Mr. Newcombe writes. (Letter read.) Then Mr. Macaulay writes. (Reads.) Did you read all of that letter from Mr. Macaulay which I have just read? A.—I read it a couple of times.

Q.—And after you read it I see you had strength enough left to write a letter of six lines? A.—Yes.

Q.—Letter 1st May. (Letter read.) On the 3rd May Mr. Macaulay writes. (Letter read.) On the 5th May you wrote to Mr. Newcombe. (Letter read.) Mr. Newcombe writes on the 23rd May. (Letter read.) That finishes the correspondence upon that subject, bringing it down to the 23rd May last. What is the condition of things with respect to the investments in this particular stock by the insurance companies?

Mr. Smith: Would you ask whether any decision was ever communicated to the Sun Life?

Mr. Shepley: Q.—Was there any further communication to the Sun Life? A.—Not in writing; a verbal communication; oh, undoubtedly there was—that the Department of Justice still retained its view.

Q.—To whom did you make that? A.—To Mr. T. R. Macaulay; there was nothing in writing.

Q.—What has been the state of the security holding according to the last

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return of the Sun Life in respect of this stock? A.—It is still retained, I think. (Correspondence Exhibit 36).

Q.—You thought you would not write him another letter; you would speak to him? A.—Yes.

Mr. Shepley: I do not know whether your Honors would think this is a convenient time to adjourn. It is a little before one o'clock. I have found the adjournment short. I would not want to suggest a longer adjournment, but when a break like this occurs, I would perhaps suggest an adjournment.

Mr. Kent: I would like to find from Mr. Fitzgerald if any communication has been made to the Confederation Life in respect to what I am bound to look at as bogus entries.

Mr. Shepley: I am going to take this up with Mr. Fitzgerald and all the reports Mr. Blackadar has made.

Mr. Kent: Mr. Fitzgerald said when there were bogus entries they were not regarded by him in his inspection. Several entries have been disclosed since then.

(Adjourned for one hour).

Ottawa, Thursday, 22nd March, 1906.

AFTERNOON SESSION.

Mr. Smith (for the Sun Life): Mr. Chairman, would you allow me to make an application, before my learned friend, Mr. Shepley, resumes his examination? I may say that it is after consultation with him that I make the application, in order that we may understand our position here. I have the honor to represent the Sun Life Assurance Company. When my learned friend, Mr. Shepley, outlined the policy he intended to pursue with regard to this investigation, he stated that he thought that as the investigation, for the present, was confined to the Department of Insurance connected with the Government, that any inquiry should be conducted by himself; and that as regards the particular companies, inasmuch as the purpose of the present inquiry was not to investigate their affairs, that counsel for the several companies should not now be heard nor should counsel be allowed the privilege of cross-examination.

I am perfectly confident that neither the Government nor my learned friend has the slightest intention of creating any uneasiness or provoking any spirit of distrust in the country where none

ought to exist; but, in the course of this examination various statements have been made, which, unexplained and uncontradicted, appear upon their face to reflect very seriously upon the several companies. It is said that we shall have an opportunity of explaining these things fully. But when? In three months' time? After the whole country has had all sorts of suspicions aroused where none ought to exist?

I think, under the circumstances, that I am justified in asking that, although this be confined now to the Government bureau, that if any statement be made reflecting upon any particular company, an opportunity ought to be afforded that company of explaining, if possible, by a few questions in cross-examination, the charge laid against them, so that the public may not have false impressions created concerning the standing of any company.

If you will allow me now to give an illustration: To-day, upon the question of investment in foreign securities, the position of the Sun Life Assurance Company is questioned in respect of three matter. The first where the same papers have been twice counted; the second, with reference to half a million dollars deposited with trustees in Great Britain; and the third, with regard to certain loans to Canadians upon stocks listed upon the Montreal market. Now I think it would be only right and just that the explanation should be afforded at once, that with respect to this \$800,000 invested with Canadians upon the security of stocks upon the Montreal market, when Mr. Fitzgerald objected and awaiting the recognition of the right which the Sun Life claimed, those investments have been reduced and now there is scarcely anything at all invested with Canadians upon the security of foreign stocks.

I put it to my learned friend, Mr. Shepley, whose fairness I have had occasion to know for many years, and also to your lordships, that an opportunity should be given as occasion arises to explain anything which appears to reflect upon any particular company. We are entirely in your hands, of course. My friend, Mr. Nesbitt, made application to investigate his company at once. It could not be granted, necessarily. If I make the same application on behalf of the Sun Life, it cannot be granted because no individual company can dictate to the Crown how it should pursue its investigation; but what I do say is, that

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it is most unfortunate that any company should be placed in the position of having a false impression created through the country when that particular company is in fact stronger, a great deal, than any statement shows that has even been given to the country. Therefore, I ask the privilege of cross-examining with respect to any question that arises touching this company.

Mr. Shepley: I shall have to repeat the observations that I have already made at different stages of this inquiry. I have, rightly or wrongly, mapped out the inquiry along certain lines and in a certain order. My learned friend is not asking, of course, to disturb that order, but the result of what he asks would be very seriously to hamper and embarrass the inquiry as it proceeds. A right which is asked on behalf of one company cannot be conceded to that company without conceding equal and similar rights to all the other companies concerned. It is inseparable from a departmental inquiry that concrete instances by way of illustration with regard to the methods of the Department should seem to concern, and, of course in a sense they do concern, although the inquiry is so being confined, a particular company. I agree with my learned friend that it would be very unfortunate if a partial statement in the course of the Departmental inquiry should do injustice to any particular company. It cannot be prevented altogether from producing an effect, of course, but my method of obviating that effect is quite different from my learned friend's method. Instead of delivering the Department over to the insurance companies upon this branch of the inquiry for cross-examination, my suggestion is that any questions which are desired to be put for the purpose of clearing up any imputation that results from the investigation or the particular illustration, should be put through me. I shall endeavor, if my contention is acceded to, to be entirely fair in the method of putting such questions as are suggested; I shall endeavor, as far as possible, to remove for the present and until the companies own inquiry, so far as the facts will warrant, any imputation that has been cast upon any particular company in the course of this Departmental inquiry, in which, I have still to maintain, the insurance companies are not directly interested. That is the course that I have proposed to my learned friend and that is the course that I ask your Honors to rule should be followed while we are at this stage of the inquiry.

The Chairman: I think, until it is

shown that the procedure which Mr. Shepley adopts works to the injury of any particular interest, we must follow it. It is our desire to be fair to everyone, not only to the public generally, but to the companies and any other person whose interest may be affected by the investigation. It is desirable that no wrong impression shall be created, and if it is created it should be removed at as early a stage as possible. The public should know that in an investigation of this kind, statements are made that are not final in any sense. They may be explained afterwards, in such a way that they will not be discreditable to anybody. We invite those representing the insurance companies to at once communicate with Mr. Shepley, and let him put the matter right in so far as he can. If, having done that, there still remains something which the counsel desires to be further elucidated on the spot, it may be mentioned again to us. In the meantime I think we shall have to adhere to the present course of procedure.

Mr. Shepley: Would my learned friend indicate, before we pass to another subject, any questions he desires to ask, or if he desires to ask any.

Mr. Smith: I wish to ask in the first place, whether the loans to Canadians upon the security of American stocks listed on the Montreal stock market, have not been almost entirely withdrawn in the case of the Sun Life.

The examination of Mr. Fitzgerald continued.

Mr. Shepley: In the case of the Sun Life Company, Mr. Fitzgerald, I am desired to ask you whether the loans to Canadian borrowers, upon the security of foreign stocks which are listed upon the Montreal Exchange, have not been almost entirely called in or withdrawn. A—I find the loans here in the return of 1905. A loan of \$175,000.

Mr. Smith: They have been paid off since.

Mr. Fitzgerald: I have no information of that and I do not know anything about it.

Mr. Shepley: I thought your inquiry was as to what had taken place during the current year.

Mr. Smith: I understood that Mr. Fitzgerald or Mr. Blackadar had been investigating this company's affairs within three weeks and would have a knowledge of these facts.

Mr. Fitzgerald: Mr. Blackadar was called back from his work in that, here.

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Mr. Shepley Then my suggestion is that when we come here to-morrow morning you shall have qualified yourself by inquiry from Mr. Blackadar to know whether there is Departmental information upon that subject. A.—Mr. Blackadar tells me that he had not reached that point in the investigation of the company's affairs and he has no information upon the subject.

Q.—In this book, which is not paged, I find a series of documents relating to the Manufacturers' Life, having appeared for the most part in 1904, upon the affairs of that company during the year 1903. A.—Yes.

Q.—You have a knowledge of the matter that is covered by these documents? A.—I have.

Q.—Can you tell me when and how you first became aware of the question or questions which these documents disclosed? A.—In the course of the investigation which Mr. Blackadar was making into the affairs of that company for 1903, he obtained certain information. Upon his having obtained that information that is the letter referred to which you have before you which he wrote me at the time he obtained the information. I telegraphed him then.

Q.—I will read the letter. It is dated the 8th of February, 1904, and was written from Toronto to you by Mr. Blackadar? A.—Yes.

Q.—And that was the first you heard of it? A.—That is the first I heard of it.

Q.—This is the letter. (Reads.) Then you sent a telegram to him, and what was the next? A.—The next was the receipt, I think, of the memorandum now before you.

Q.—That is another letter from Mr. Blackadar to you of the 10th of February, 1904. It is headed "Re Manufacturers." (Reads.) Did you receive that letter before you left Ottawa? A.—I did.

Q.—And what did you do? A.—I went up to Toronto and went to the company's office and investigated the matter as thoroughly as I could and upon my return I made a report which you will find a little later.

Q.—Did you on that visit discuss these transactions with the officials of the company? A.—I did. That is also shown by the report, I think.

Q.—Your report is dated the 24th of February and headed in pencil "For the Minister"? A.—Yes.

Q.—We will go over that report first and then deal with the various documents which are covered by it. (Reads report.) When did you ascertain this matter about the Pellatt transaction? A.—At the same time.

Q.—That is not mentioned in the advance letter sent by Mr. Blackadar to you? A.—No, but it was at the same time.

Q.—On your visit you ascertained about this? A.—Yes.

Q.—(Reads from "In the list of mortgages there is one made by Mr. Pellatt" to "registration of the mortgage and other conveyances.") Do you happen to know whether these gentlemen named in the resolution were connected with the Manufacturers' Life? A.—They were all directors. Mr. Junkin was the Managing Director; Col. Mason and Mr. Harris were directors.

Q.—What relation has Mr. William Mackenzie to the company? A.—I am not certain whether Mr. Mackenzie was a director or not, but Mr. Mann was. I am not sure that Mr. Mackenzie was.

Q.—(Reads to end of report.) You made that report to the Minister? A.—I did.

Q.—Now I want to ask you about these transactions. First, there were two call loans to Mackenzie & Mann? A.—Yes.

Q.—And you do not recollect any relation on the part of Mr. Mackenzie to the company, but Mr. Mann you say was a director of the company? A.—He was.

Q.—Mr. William Mackenzie is a director, but you were not sure of that to-day? A.—No. I have no doubt if his name is there that he was a director.

The Chairman: His name is not in the list of shareholders.

Mr. Shepley: It is in the list of directors as of the 31st of December, 1904. (Refers to blue book, 1904.) You might look at the list of directors as of 31st December, 1903. He appears in that list, as does also Mr. D. D. Mann. He does not seem to be a shareholder. A.—Possibly there may be an omission there, but I do not see how he can be a director without being a shareholder.

Q.—I am afraid that there are a good many things about these insurance companies that we do not, any of us, know as yet. At all events, he seems to be in the list of directors.

The Chairman: He may be a policyholders' director? A.—I don't think

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the Manufacturers' have any policy-holders' directors.

Mr. Shepley: Then two of the directors of the company seem to have borrowed \$140,000 or thereabouts from the company of which they were directors, on call, upon the security of Inverness Railway & Coal Company stock and upon the security of the Manufacturers' Life own stock? A.—Yes.

Q.—Both of which in the report which you made you declare to be beyond the powers of the company to invest in? A.—Yes.

Q.—Have you any doubt as to the propriety of that opinion? A.—I have no doubt as to that.

Q.—Then for whatever reason, whether because they realized that or not, there was this juggling with this call loan and the other securities, the Dominion Coal and the Crow's Nest at the end of the year? A.—Yes.

Q.—Did you verify the statement made in Mr. Blackadar's second letter to you that at that date but for this transaction and indeed through all the year, the bank account was very close or its condition adverse to the company's credit? A.—I don't think I verified that. Matters of that kind, where Mr. Blackadar had verified them, I didn't think it necessary to go over them a second time.

Q.—With regard to the Crow's Nest and the Dominion Coal stock, did you verify them or have you at all verified, or had verified, the source from which those stocks came to the Manufacturers' Life? A.—I made some effort to trace that, but I do not know that I succeeded.

Q.—Did you ask any questions of the company's officers about it? A.—I think so.

Q.—What were you told, if anything? A.—I would not charge my memory with just what I was told at the time. I am satisfied that the report I made there embodied all material facts.

Q.—All that you had been made aware of? A.—Yes.

Q.—And you do not think you were able to ascertain, at all events to your satisfaction, so far as you now can recollect, the source from which those stocks, the Dominion Coal and the Crow's Nest Coal, came to the Manufacturers' Life? A.—No, but it was natural to assume as the loan was

made to Mackenzie & Mann upon the security of them, that these stocks came from them.

Q.—The loan to Mackenzie & Mann was on the security of the Inverness and the Manufacturers' stock? A.—Yes.

Q.—But wherever they came from, whether from Mackenzie & Mann or not, the whole lot disappeared by a transaction to which Mackenzie & Mann were parties? A.—Yes.

Q.—They put, apparently temporarily, the Traders Bank in funds? A.—Yes.

Q.—And these securities, including those held for the call loans, and the call loans themselves, disappeared from the books of the company for the time being? A.—Yes.

Q.—Then that was dealt with in a minute of the Finance Committee afterwards approved by the Executive Committee? A.—Yes.

Q.—The Finance Committee's minute reading "the sale of 1,800 shares," it was really 1,825, was it not? That may be a clerical error. (Reads to) "was approved." A.—It was.

Q.—Now, does there seem, so far as the records disclose to you, so far as you can now recollect, any reason for the connection of Mackenzie & Mann with that half of this transaction if they had not been concerned in the stocks themselves? A.—There would be no reason for it.

Q.—And does there seem to you to be any reason for a guarantee to them against loss by the company if there was any real change of ownership intended? A.—That was one thing that confirmed me in the opinion that there was no real change of ownership, and later on I think that was conceded, as I think was stated in an interview I had with Mr. Junkin.

Q.—Then having apparently to their credit the proceeds of this so-called sale, amounting to \$386,443.51, there was some accretion of interest to that? A.—Some \$1,500.

Q.—\$1,482.26. Who got that interest? A.—I should judge that went to the bank.

Q.—And who paid it? A.—I suppose the company paid it. I cannot see anything else.

Q.—It appears so from their books. A.—Yes.

Q.—So that the bank was paid the interest which was charged to the company, and Mackenzie & Mann were indemnified against any loss whatever even in respect of the payment of the

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interest, all their stocks being carried to the bank. A.—It seems so.

Q.—Whose cheque was that that went into the bank on the 28th of December, did you see or verify that? A.—I have no doubt I did, but unless I made a memorandum of it I would not like to speak positively with regard to it. I do not remember. It appears to me that it came from the Traders Bank. I did endeavor to find, I remember, whose cheque that was.

Q.—It was not at all events the cheque of the company? A.—It was not the cheque of the company.

Q.—Then in your report you complain, so far as this concession, of the return made to the department in two respects. You say that in the first place it was improper, or, inaccurate, is your word, because it did not report the call loans and the holdings of the coal stocks? A.—Precisely.

Q.—The fact of those being investments of the company being entirely suppressed from the returns? A.—Entirely.

Q.—Then you say, in the second place, it was inaccurate in placing the assets at a valuation of \$98,135 more than the actual value of them? A.—Yes, precisely.

Q.—That, of course, is upon the theory that that cash was not their cash, although those stocks were their stocks? A.—Yes, those stocks were theirs, but they were worth \$98,000 less than appeared as cash in the statement.

Q.—Then we come to the Pellatt transaction. Let me see if I understand your report. Pellatt & Pellatt were the brokers of the company? A.—They were.

Q.—Mr. H. M. Pellatt being also a director of the company? A.—A director.

Q.—And they had purchased for the company a thousand shares of C. P. R. stock to be paid for by the company in instalments? A.—Yes.

Q.—Then Pellatt & Pellatt, for their own purposes presumably, had hypothecated this stock? A.—Yes.

Q.—And when the time came for the Manufacturers' to get delivery of it, it could not be obtained. A.—Pellatt & Pellatt had not got the stock. They were not able to deliver it.

Q.—They could not make good, and a payment of \$100,800 was necessary to release the stock? A.—Yes.

Q.—Then the company paid that \$100,800? A.—They did.

Q.—And they also paid another \$25,000 to release the lien existing upon Pellatt's Manufacturers' Life stock, which he was going to pledge them as collateral security? A.—Yes.

Q.—In all \$126,800 the company paid out? A.—Paid out.

Q.—Pellatt gave them security by way of mortgage upon some property standing in his wife's name? A.—Yes.

Q.—For the whole amount of \$128,800? A.—For the whole amount.

Q.—The property said to be worth \$46,300? A.—That was the value of the real property.

Q.—Of what they chose to make the main security? A.—Yes.

Q.—And you have a copy here of a mortgage of the 29th of October, 1903, made between Mr. Pellatt of the first part, the Manufacturers' Life of the second part, and Mrs. Pellatt of the third part. (Reads recital). That recites the thing just as you have stated it? A.—Yes.

Q.—(Reads mortgage to end.) Then you have also here a minute of the directors of the company in connection with the transaction, sanctioning its being carried out in that way? A.—Yes.

Q.—The minute is dated the 26th of October, 1903. Moved by R. L. Patterson, a director? A.—A director.

Q.—Seconded by Col. Mason. (Reads). That is, pay over again for the C. P. R. stock and pay the \$25,000 to get rid of the lien upon the Manufacturers' stock? A.—Yes.

Q.—That was the resolution. And that was the way that transaction was carried through, and you point out in your report that the stocks in question were not stocks in which the company could invest? A.—No, they could not; but under one clause of the Insurance Act, under certain conditions a company is entitled to take as collateral security anything they can get.

Q.—Then the whole thing was incurred in connection with the purchase of C. P. R. stock? A.—Yes.

Q.—Which you thought they had no power to purchase at all? A.—No.

Q.—So, that as a matter of fact, the original transaction was ultra vires of the company upon your construction. The broker employed to carry it out had pledged the illegal security so that it could not be obtained. He was a director of the company as well as its broker; the company advanced over again the price of the illegal security,

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and they advanced another \$25,000 upon a security that they had no right whatever to invest in, and took a mortgage upon property worth \$46,000 for \$126,000 with collateral security of unauthorized stock? A.—That is the full transaction.

Q.—Before going on with your departmental dealings with these securities, let us finish the other part of the report. Now you found that directors of this company had formed two other companies? A.—Yés.

Q.—Incorporated two other companies, one called the Canadian Securities, Limited, which was a sort of brokerage company, with powers of dealing in stocks, bonds and securities, and the other an office building company? A.—Yes.

Q.—The only gentleman in either company who was not a director of the Manufacturers' was Mr. Nicholls A.—

Q.—He was in the King Edward Office Building Company, but was not in the other? A.—Yes.

Q.—And apparently these companies were both formed just about the time the investment was made; this, perhaps, was one of their first transactions, the sale of these bonds to the Manufacturers'? A.—That is probably so. The dates of the charters, I think, are given there some place. I believe I have copies. I think amongst the papers you will find copies of the charters of these two companies.

Q.—I would ask you whether in the course of your investigation of this interesting subject, you examined at all the minutes of the Manufacturers' Life, authorizing these loans to be made the Canadian Securities and the King Edward Office; did you examine the minutes to see who it was that voted away these moneys to these two companies? A.—I don't remember doing so, now.

Q.—You are not able to say whether the directors of these two companies formed a junta in the board room of the Manufacturers' and proceeded to vote this money? A.—I am not in a position to say how that was.

Q.—Was there ever any doubt expressed anywhere as to the illegality of those investments, did the company ever dispute their illegality? A.—They never disputed it.

Q.—We have now your report made to the Minister of these apparently irregular transactions. Did you proceed in pursuance of your official duty to take the matter up with the company? A.—I did. Mr. Mann, I think, first vis-

ited the Department, followed a little later by Mr. Junkin A.—Yes.

Q.—When you were making your investigation preliminary to the report, is it right to say that you fully disclosed to them then your objections to these transactions? A.—Oh, undoubtedly, I discussed the matter with Mr. Junkin.

Q.—They were alive to that? A.—They were, no doubt about that.

Q.—Now what proceedings were taken by reason of your attitude in respect of these matters? A.—The directors undertook to make good the loss that had been occasioned; to put up the difference between the cost price of these securities and their value at the time. There is an agreement there signed by, I think, all the directors.

Q.—There was correspondence first, was there not? A.—A few letters may have passed before that was done, but possibly it was by interviews that that was arranged in the first instance. Later on there was some correspondence regarding it.

Q.—Then I see that immediately after your investigation, and before indeed you made your report to the Minister, you submitted the matter to the Department of Justice? A.—I did.

Q.—In a letter of 12th February, 1904, to Mr. Newcombe, the Deputy Minister. (Reads). Three days later you got Mr. Newcombe's opinion, dated the 15th of February. (Reads). That was the opinion you obtained? A.—Yes.

Q.—Then the next letter I have here is a letter from Mr. Junkin to you, and it occurred to me that possibly there was some letter from you in the meantime to Mr. Junkin, because he encloses to you a copy of the letters patent under the Ontario Companies Act, incorporating the King Edward Office Building Company. That is on the 24th of February? A.—There would probably be no letter, for the reason that in going over these securities I found this particular security and requested the person in charge of it to furnish me with a copy of the charter.

Q.—Then also he sends you a copy of the letters patent incorporating the Mexican Light & Power Company, and then he gives you some information with regard to the Supply Company. What is the Supply Company? Is that something that they had invested in? I did

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not make out the connection of that when I read the correspondence. It is a Nova Scotia Company. I will read you what he says in a letter "re the Supply Company." (Reads). A.—I recall it now. It is really the Kinsman Company, which was reorganized under the name of the Supply Company?

Q.—The R. W. Kinsman Company? A.—Yes, it is the same company as that.

Q.—In which they had \$10,000? A.—Yes.

Q.—Had a question been raised as to the legality of that investment? A.—There was, yes.

Q.—It is not mentioned in your report? A.—Well it ultimately turned out to be satisfactory. I was either advised directly in that case or in one precisely similar, by the Department of Justice, that that was such a security as the company could legally invest in. That is the reason it would not appear in the report.

Q.—Then there are copies here of the charter or letters patent of the King Edward Office Building Company, the letters patent incorporating the Mexican Light & Power Company, and apparently you were sent also a copy of the charter of the Electrical Development Company of Ontario. This is literature you collected together as bearing upon the investments? A.—Bearing upon the investments of the company, and for convenience they were all put in and bound there together.

Q.—And it was your course to collect that sort of literature when you were considering these questions? A.—Yes.

Q.—Then the memorandum of association of the Supply Company gives it enormously wide powers. It can do almost anything under the heavens? A.—Yes, worse than the Insurance Act is said to be.

Q.—There is a telegram of the 26th of February from Mr. Junkin to you (Reads.) Were you making inquiry as to the value of that? A.—As to the value of the Inverness Coal Company.

Q.—Then I take up the further correspondence and show how the transaction was carried out. You wrote to Mr. Junkin on the 25th, saying that you had received the charters. (Reads.) Then on the 26th of February Mr. Junkin writes you. (Reads.) Then on the 29th of February you wrote Mr. Junkin. (Reads.) On the 1st of March Mr. Junkin writes you. Ap-

parently he was telephoning you on the 29th of February. Do you remember about that at all? A.—No.

Q.—(Reads last mentioned letter). The proposition was to discontinue the loan as a loan to Mackenzie & Mann personally, and to make a loan to the Mackenzie & Mann Company, Limited? A.—Yes.

Q.—Have you considered as part of your duty in your Department, as part of what you ought to consider, the question of the propriety of loans of that kind, where the personality of the lender and the personality of the borrower are more or less identical? A.—You mean?

Q.—Has that been a subject of consideration from the Departmental standpoint? A.—In this particular case?

Q.—No. A.—To take an instance then, the question is raised by this proposed change from Mackenzie & Mann as individuals to the Mackenzie & Mann Company.

Q.—It was in the first place, so far as Mackenzie & Mann were directors, taking part in the transaction, it was a loan in which Mackenzie & Mann were the lenders as well as Mackenzie & Mann being the borrowers? A.—Yes.

Q.—Supposing we stop there for a moment. Have you taken that up Departmentally and considered that question or made it a subject of study, the propriety of that sort of loan by the directors of a life insurance company? A.—Well, I made no particular study of it, but I should say *prima facie* that it is entirely wrong.

Q.—If you have not made a study of it, then perhaps I need not ask you the further question whether the objection to it would disappear in your view if instead of lending to Mackenzie & Mann personally the funds were lent to a company of which Mackenzie & Mann were the owners? A.—I should say that it was quite improper and that there would be no real difference in the transaction.

Q.—Then on the 2nd of March Mr. Junkin writes you again, "Re Mackenzie & Mann loans." (Reads.) That indicated that the two loans had been transferred from Mackenzie & Mann to the Mackenzie & Mann Company, Limited? A.—Yes.

Q.—And that the securities that had taken the place of the old securities were these Canadian Lake & Ocean Navigation Company shares, Imperial Rolling Stock Company shares and the

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Vancouver Gas Company shares? A.—Yes.

Q.—Those were the securities in respect of both loans. Then on the 7th you wrote to Junkin. (Reads). To which he replied on the 9th. (Reads). On the same day another letter, "Replying to the last part of your favor of the 7th." (Reads). Now, I turn to that agreement of which you have a copy, "Memorandum of agreement made this 7th day of March, 1904, between Mann, Mackenzie, Harris, Pellatt, Beaty, Mason, Wood, Lennox, Patterson and Junkin of the first part and the Manufacturers' Life of the second part." (Reads). It is signed by all the parties except Mr. Lennox, I think. According to the scope of this agreement, as it appears to us, these ten gentlemen were to organize a company to be called the Prudential Securities Company and to be a holding company for the stock and this Dominion Coal and Crow's Nest Coal was to be handed over for \$240,000, together with \$35,000 Mexican Power and \$45,000 Ontario Electrical Development? A.—That is as I understand it.

Q.—And the company was to get back for all that the \$240,000 that the Dominion Coal and Crow's Nest Coal had cost? A.—Yes.

Q.—What about the Electrical Development and Mexican Power. That was the property of the Manufacturers', as I understand it. What did that stand them, or do you know? A.—I don't remember that portion of the transaction.

Q.—It looks as though they were dropping \$35,000 of Mexican and \$45,000 of Ontario Electrical Development and adopting that as a loss—I do not know that it is so—instead of the loss of the unauthorized investments, the Dominion and Crow's Nest. That you don't remember? A.—I don't remember about that, no.

Q.—Then the Manufacturers' were to get \$10,000 stock in the Securities Company as a further consideration? A.—Yes.

Q.—And to get \$100,000 in cash and to make a call loan for the other \$140,000 to the Prudential Securities Company? A.—Yes.

Q.—Now I think you have here a copy of the letters patent of the Imperial Rolling Stock Company, which, as you recollect, was to have its stock substituted in part for the unauthorized stock? A.—Yes.

Q.—Did you observe who the incorporators were? James S. Lovell, Wm. Bain, Ernest Wm. McNeill, Richard Richardson and Robert Gowans, solicitors' clerks, all of the city of Toronto, in the county of York. A.—I know some of them, Lovell, for instance.

Q.—Whose company is that? A.—It is not one of the Manufacturers'.

Q.—Whose clerks are they? A.—Well, Mr. Lovell was with Blake & Co. He was a bookkeeper at one time.

Q.—It looks like Mackenzie & Mann, does it not? A.—Well it might be so. I have noticed that it was quite a common thing for large companies with immense capital to be incorporated in the name of three or four or half a dozen irresponsible persons.

Q.—These are solicitors' clerks in the office of the general counsel of Mackenzie & Mann? A.—I believe that is the case. I believe Mr. Lash is the counsel for Mackenzie & Mann.

Q.—Then you have also the charter of the Canadian Lake & Ocean Navigation Company, Limited. That is a Dominion charter, issued under the Dominion Letters Patent Act? A.—Yes. I believe so.

Q.—The incorporators of that start out a little different; the first gentleman's name is Robert Phipps Ormsby. Do you know who that is? A.—I think I do.

Q.—Who? A.—He is in some way connected with Mackenzie & Mann. Q.—Is he not Mr. Mackenzie's private secretary for instance? A.—I believe he is.

Q.—Stanley Ross Wilkie, solicitor's clerk; Robert Gowans, solicitors' clerk; Richard Richardson, stenographer; Arthur White Anglin, solicitor; Robert Cecil Hamilton Cassells, solicitor, and Walter Gow, solicitor, all of the city of Toronto, in the Province of Ontario. That is the same as the other? A.—Very much the same kind as the other.

Q.—They are the incorporators of this company with a capital of \$3,000,000, the bonds of which were substituted for the unauthorized securities. There is an Ontario license here to the Dominion incorporation, and I pass on with the correspondence. On March 11th Mr. Junkin writes you with regard to the Vancouver Company (Reads). Then on the 16th you telegraph Mr. Junkin (Reads). Mr. Junkin answered. (Reads). Then he writes, "I received your telegram yesterday, dated March 17th, 1904." (Reads.) Did Mr. Mann come in

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to see you or Mr. Ruel? A.—Mr. Mann came in to see me. The other gentleman's name?

Q.—Mr. Ruel, he is spoken of as Mr. Mann's secretary? A.—I don't remember him.

Q.—And I suppose Mr. Mann told you how the matter was progressing? A.—Yes.

Q.—That they were waiting to get the people together who were to put up the money? A.—Yes.

Q.—Then on the 22nd of March, 1904, a letter from Mr. Junkin. (Reads.) Then on the 25th you reply. (Reads.) Then on the 26th you write him. (Reads.) He replies on the 6th of May. (Reads.) Then Mr. Junkin writes you on the 19th of May. (Reads.) He says in this letter that the Manufacturers' Life has been paid in full. Do you understand that to mean that they got more than the \$100,000 cash and \$140,000 in new securities? A.—That is all I understand it to mean.

Q.—It does not mean that they really got the money in cash, but that they got what the agreement contemplated? A.—That is what I understand it to mean.

Q.—Then with regard to the other matter, have you ever heard whether that Pellatt mortgage has been registered? A.—The last time I visited the company, which would be about in the neighborhood of a year ago, I mean with reference to this transaction, I was told then as I recollect, by Mr. Franks, that it had not been registered up to that time. However, all interest had been paid upon the mortgage and from the standpoint of the company it was considered to be entirely good. I noticed from the statement that at the end of the present year the principal had been reduced to \$100,000. That is to say the odd \$25,000 has been paid off.

Q.—Then this is an illustration of the method, and that is its principal value at present, of the Departmental method you pursue when irregularities of this sort are brought to your notice? A.—That is the method.

Q.—Can you be sure that you always find them? A.—Well, you know, it is impossible to say that we do always find them, but I am almost safe in saying that one has not escaped us. That particular branch of the work comes rather within Mr. Blackadar's duties, and I know him to be a very careful officer in matters of that kind, and I would think

that scarcely anything of the kind would escape him.

Q.—If I may ask this question without prejudicing anybody, is not this instance a particularly bold instance? A.—For a company?

Q.—Yes? A.—It is undoubtedly a very bold instance.

Q.—If much less bold there would not have been so much possibility, so much certainty of it being found out, is that fair? A.—Well, no, I would hardly go the length of saying that, I think, even if it were not half as bold.

Q.—The more furtive the transaction the less easy to find out, of course? A.—Yes.

Q.—Perhaps sometimes from its very boldness it might succeed? A.—Well, it might.

Q.—However, the principal value of that at this phase of the inquiry is to demonstrate your methods in the Department for dealing with these matters? A.—Yes.

Q.—You took the matter up in this particular instance, with the result that in the way that has been disclosed by the documents, the matter was healed, if it was healed? A.—Yes.

Q.—That is all I have to ask you about that particular company, I think. You will endeavor, Mr. Fitzgerald, if possible to have the different lacunae filled up that have been indicated to the secretary to-morrow, and then I shall go on with the other matters that I have in mind.

The Chairman: What do you propose going on with in the morning, Mr. Shepley?

Mr. Shepley: I have several other matters in this book, instances of Departmental treatment of matters, and then I have also to take Mr. Fitzgerald, I hope briefly, over the Blackadar reports.

(Adjourned to 10 a.m. on Friday, the 23rd of March, 1906.)

Ottawa, Friday, March 23rd, 1906.

TENTH DAY.

The Commission resumed at 10 a.m. to-day.

Examination of William Fitzgerald by Mr. Shepley continued:

Q.—Has any progress been made towards the elucidating of the little matters that were left over yesterday? A.

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—The first was literature bearing upon increase of powers of investment on foreign securities, Sun Life and other companies. I have that.

Q.—Then I think I will take that first. Is this arranged in chronological order? A.—It is arranged in chronological order.

Q.—Part of it is loose and part of it is bound? A.—Yes, but this is in chronological order. This part is something earlier than the other. There may be an immense amount of other stuff besides that.

Q.—You think there may be a great deal more than this? A.—Yes, manifestly I think there is something in addition.

Q.—Is the whole of this enclosed in this letter? A.—It all came with that.

Q.—This is a supplemental memorandum? A.—What I mean by that is there is something preceding.

Q.—There must be a main memorandum? A.—Yes.

Q.—This is only a supplementary memorandum? A.—Yes.

Q.—On the 24th March, 1902, this was sent to you by the Canadian Life Assurance Officers' Association? A.—Yes. I may say that I have not read that through. I only just came across it.

Q.—Is this supplemental to some earlier memorandum? And what follows, what is in the bound volume—is that an independent effort which may be dissociated from this for the purposes of this inquiry? A.—Yes.

Q.—Then we will leave this until we get the balance, and start with what you are able to speak of independently? A.—I may say with regard to this, this only contains the letters received principally and the acknowledgments of them, and that kind of thing.

Q.—The letters written by the Department are not contained, and there are a great many of these? A.—There may not be many, and they would be principally acknowledgments. I do not think there would be anything important in any of them. I should judge not.

Q.—You do not think there would be anything in the nature of argument, or dealing with the matters which are being raised by the company? A.—I do not think there would be, but I will have a search made, and we will get everything, and copies of them.

Q.—If you think there is nothing but acknowledgments we will take up this literature. On the 9th January, 1903,

Mr. Bradshaw, who is described as the secretary of the Canadian Life Assurance Officers' Association, writes to you as follows: (Reads letter.) I see that the document itself sent forward in duplicate shows amendments. There are erasures and marginal notations. Were these in the document when it came, or are they the result of survey in the Department? A.—Those were in the document when it came. This is something done in the Department, which would show the alterations if the suggestions were carried out. This is how the original Act would be amended.

Q.—What you say is that the alterations in the typewritten proposition for a new section 50 were in the document when it came forward. The printed document, which is a copy of section 50, as it now stands, shows by the alterations made in it the effect of adopting the proposed amendment? A.—Yes.

Q.—Then we will deal with the matter upon the amended Act. You are able to say that that embodies the proposed amendment? A.—I do not think there is any doubt as to that.

Q.—That is what is intended, at all events? A.—Yes.

Q.—We will examine it with that in view. If it turns out afterwards we have omitted anything we will come back to it. The statute reads, "Any life insurance company which derives its corporate powers," and so on. (Reads.) And then the first insertion is "Electrical Railway Company." Is that right? A.—Yes.

Q.—Then the statute proceeds, "Electrical or power company," and there is inserted "Manufacturing, electrical, iron steel or coal company"? A.—Yes.

Q.—Then the statute proceeds. (Reads.) The words "The debentures or bonds of any" are struck out, "Or steam railway company" and then is struck out the requirement for earning and paying dividends for the two years next preceding the purchase." Then the statute remains without alterations till you get to subsection 3, and that is altered very much. "Any such life insurance company may invest a portion of its funds in the purchase of, or may lend a portion of its funds upon foreign security." After the word "invest" striking out the word "in," and before "foreign securities" inserting "may invest a portion of its funds in or lend its funds upon foreign securities," etc. "But may deposit outside of Canada only such

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portion of its funds as is necessary or desirable for the maintenance of any foreign branch"; and the rest of subsection 6 struck out altogether, the tion 4 is struck out altogether. Subsection * struck out altogether, the amendments in section 3 being so wide as to make it unnecessary or obsolete, the provisions of four, five and six. Now, to sum up, that added to the securities which might be invested it, "Electric railway companies, manufacturing electric companies, iron, steel and coal companies"; and it struck out the restriction as to steam railway companies as to the investment being confined to debentures or bonds, allowing investment to be made in stocks of such companies, and it also deleted the provision as to earnings for two years? A.—Yes.

Q.—Then with regard to foreign securities, it enabled the companies to invest in foreign securities, a co-extensive clause with domestic securities? A.—Yes.

Q.—It struck out all reference to requirement of foreign companies for deposits, making the investment possible in foreign securities relate to such portions of the funds as was necessary or desirable for the maintenance of any foreign branch. Then Mr. McCabe, president of the Life Officers' Association of Canada, submitted a memorandum which is dated 15th January, showing an extension of the investing powers unanimously desired by the companies. (Reads.) This pencil writing "or by law"—do you know whether that is Departmental or whether it was in the memorandum submitted—"By a few of the companies or by law"? A.—I do not recognize the writing. I think it was in the memo.

X Q.—Now, the arguments, to sum them up, seem to be this: First as to electric railway companies, that they are a class of investment which is beginning to develop and be profitable; secondly, with regard to manufacturing electric companies, that there is one company that they know of which has been profitable and is profitable. With regard to iron, steel or coal companies, they say that these, especially the first two of them, are in a satisfactory condition, and their stocks are now selling at a premium. Then as to the change with regard to the quantum of investment in foreign securities, that they say is necessary from their standpoint. They are more profitable investments, because it is

necessary to realize enough to equalize the interest upon reserve, and because the wide powers given to the two companies which have wide powers have not been abused, and it is necessary in order to enable them to compete satisfactorily with other companies? A.—Yes.

Q.—That is in a nutshell the argument? A.—Yes.

Q.—Then I see here that there is a stock list which is stamped with the Departmental stamp on the 16th January, 1903, the same date as the memorandum? A.—And it in all probability refers to some of the securities that are mentioned in the memorandum.

Q.—Dominion Steel & Iron, Canada General Electric, and then there are the American traction companies, which are listed? A.—I have no doubt that came with this. I think I recognize that as Mr. Goldman's writing, the secretary.

Q.—Then there is also a memorandum which bears the Departmental stamp of the same date, by Mr. Bradshaw, the secretary of this same association. "Since 1880 the investment of one-half of the British life assurance companies have been greatly extended"—(Reads). Has there been any verification of that statement as to the extension of the powers of British companies? A.—Oh, I would not say that it has been gone into and carefully verified, but I would think it entirely probable that the statements made there are reasonable accurate.

Q.—The memorandum proceeds "Those who are supposed to be managing their companies"—(Reads). Then follow examples which one may look at. Then follows a statement of the law of certain of the United States. (Reads). Then Mr. Macdougall of the British Empire submits an amendment? A.—That was on a minor point, however. I do not think it regarded investments.

Q.—These examples of the powers of investment are all the examples that have been collected for the purpose of the proposed legislation, are they? A.—Up to this time.

Mr. Langmuir: Q.—Does the Department receive these British reports, and do these reports give a statement of these investments authorized, as set out there? Do you receive the reports of these insurance companies in the Department? A.—We receive a report from the British companies which is required—you mean now of the general business?

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Q.—Do they exchange reports? Do you obtain their reports, and do they set out these investments? A.—They are not set out in detail. It is only such statements as they are obliged to make to the Board of Trade in Great Britain, and that does not give the details of the securities.

Q.—They are not set out anywhere, as far as you know? A.—So far as I know they are not set out anywhere.

Mr. Langmuir: You can understand it would be exceedingly useful to the Commission if we had them before us, but I suppose we can get them.

Mr. Shepley: No doubt. Q.—Does the report which you get from the insurance company, and which goes to the Board of Trade, specify the powers in investment of the various companies in England? A.—It does not, no.

Q.—It does not specify that? A.—No.

Q.—Those powers, of course, can be ascertained and verified? A.—Yes.

Q.—This report is in respect of a different matter; it is in respect of— A.—In respect of appointing a trustee.

Q.—A trustee in Canada to hold property here? A.—Yes.

Q.—Then here is the Sun Life, with a copy of the Act as it is proposed to amend it. Letter from Mr. Macaulay, 12th January, 1903, to Mr. Fitzgerald. (Reads letter.) That seems to be accompanied by a proposal for an amendment to the Act in accordance with it, which would put the Act in this shape? Section A as at present: subsection B, after the words "The debenture bonds" put in the words "Dividend paying stocks or other securities of any building society," and so on; and then electric railway companies, and "manufacturing electric companies and steam and coal companies" inserted as in the other. Then subsections 3, 4, 5 and 6 struck out. That would be carrying out the suggestion that he makes that with respect to all these companies, even those in the common stock of which an insurance company can now invest, the common stocks should be divided, paying before they could be the subject of investment? A.—Yes.

The Chairman: Nothing suggested in place of subsection 3?

Mr. Shepley: Nothing in place of subsection 3. That I suppose he was leaving to be dealt with by the general management.

Q.—Then I see you wrote a letter on the 21st January to Mr. McCabe, the president of the association? A.—Yes.

Q.—(Letter read). That incorporates in section 3 the provision as to maintaining a reserve and an amount equal to its liabilities otherwise in Canada, and it brings into the provision a requirement that the investments equal to two-thirds of such liabilities shall be in Canadian securities? A.—Yes.

Q.—Then 4, 5 and 6 are repealed? A.—Yes.

Q.—Then McCabe answers that letter. Then here are some clauses I would like you to look at and tell me about? A.—Here is a clause suggested by and drawn in accordance with the instructions of the Minister. This clause seems to have been drawn in my office.

Q.—Perhaps by reading them we will get the relation. This is clause 3 drawn in your office. We will just see what it provides. (Reads clause.) That is precisely the same clause that your letter stated was what was agreed upon by the deputation? A.—Yes.

Q.—Then here is a clause as suggested and drawn upon the instructions of the Minister? A.—Yes.

Q.—This clause reads—(Clause read.) That is to be substituted for clause B? A.—Yes.

Q.—That was suggested by, and you drew it in accordance with the instructions of the Minister? A.—Yes.

Q.—That would be in the course of these suggestions for an alteration in the law? A.—Yes.

Q.—And was that done at a time when the Minister had fully before him the views of the insurance companies? A.—Yes, it was at a time after there had been an interview with him, and it was actually in that form submitted to the deputation.

Q.—This, put briefly, if it were the law, would be an authorization to invest in the bonds of any company incorporated in Canada or elsewhere, provided those bonds were adequately secured by a mortgage on the assets of the company? A.—Yes.

Q.—With respect to debentures or other evidences of indebtedness, power to invest in those if default should not have been made in respect of any indebtedness of the company on the payment of interest, and if in the case of stocks regular dividends of at least five per cent. had been paid for at least five

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years preceding the investment? A.—That is the meaning of it

Q.—Then we shall be able to compare that with the law as it at present stands. Then the next "Alternative clause suggested, but not approved by the Minister." This is apparently an alternative for the latter part of the clause that you have told us was suggested by and drawn in accordance with the instructions? A.—Yes

Q.—That is when you come to the debentures or other evidences of indebtedness? A.—Yes

Q.—"Debentures or other evidences of indebtedness"—(Clause read). That was not approved by the Minister? A.—That was not approved.

Q.—Then I think this clause which you have marked "approved" by the Minister is precisely the same as the clause you drew upon his instructions? A.—Yes

Q.—"Bonds of any company"—(Reads). That is not the same; it is different, and it follows with specific provisions as to stock. (Reads.) There is a difference there, the difference being that in the clause which you drew in accordance with the Minister's instructions there was a provision that there must not have been default in the case of debentures or other evidences of indebtedness—that there must not have been default in the payment of any interest or obligation, while here it is that there must not be default in respect of the obligations or debentures? A.—Yes

Q.—Here are two more clauses suggested but not approved—that means not approved by the Minister? A.—Yes.

Q.—Then there is a memo. on this "As sent to McCabe February 7th by Mr. Fielding"; that will be the approved clause? A.—I think so.

Q.—That is the clause which you have said the Minister approved of? A.—Yes

Q.—Then there is a letter from Mr. Angus MacMurchy of the 5th March, 1903? A.—Bearing upon another question, relating to the company for which he was solicitor, namely the Mutual Reserve. Nothing turns upon that. I think, now

Q.—That has nothing to do with the investing powers of companies at all? A.—No.

Q.—That is with regard to assessment companies and their licensing? A.—Yes.

Q.—We will not take that up at present. Another letter from Mr. MacMurchy, also another letter from Mr. MacMurchy, and a letter from Mr. Fielding to Mr. McCabe on the 7th February, 1903. "We substitute section B which is annexed"; that is the approved section? A.—Yes.

Q.—Then letter from Mr. Bradshaw of the 10th March, 1903, to Mr. Fielding, re proposed amendment in Insurance Act. (Letter read.) Then the letter 11th March from Mr. Courtney, saying that next week, if convenient, he will try to arrange an interview. Then a letter from Thomas Hilliard, who seems to be manager of the Dominion Life Assurance Company. Then Mr. Fielding answers that on the 12th March, saying he will give all due consideration to the suggestions respecting real estate. Then the letter of the 18th March from Mr. McCabe. Then this is the memorandum in Clause B. "The bonds of any society" (Reads). Then Mr. Fielding says on the 19th March, acknowledging receipt, "I am afraid the clause you propose is a very material departure from the one I ventured to suggest in a recent communication with you." (Reads letter.) Then Mr. McCabe to Mr. Fielding 25th March. Then letter to Mr. MacMurchy's. That is still upon the question of the assessment companies. We will pass that over. Then another letter to Bradshaw. Then another by Bradshaw. Then you wrote him a letter, saying you would be in Toronto about the beginning of June. Then Mr. Goldman on the 29th September writes. There see — there. Tell us about the proposed legislation. What was the trouble about it? Why was it not taken up. A.—Want of time at the late stage of the session to put it through.

Q.—If I recollect correctly, that was a session which was very busy? A.—It extended, I think, late in October or November.

Q.—Mr. Goldman writes you on the 29th September. (Letter read). Then a letter from Mr. Goldman to Mr. Blackadar? A.—I was absent from the city at the time

Q.—You were away, as the letter states? A.—Yes

Q.—Then Mr. Blackadar replies, Mr. Fielding had railways and canals on his hands at this time as well as finance? A.—Yes.

Q.—Then from that a letter is written by Mr. Goldman to Mr. Fielding 5th October. There is a reference there

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to the Minister and yourself being surprised that there was no power. Have you any recollection of that? A.—I do not know about the Minister, but I certainly was not surprised. I never thought of such a thing.

Q.—Perhaps you could tell me what company that was that was the holder of \$100,000 of this stock? A.—I am not certain, but I believe it was the Manufacturers'. I think it was.

Q.—On the 8th October Mr. Fielding answers. (Reads.) Then Mr. Goldman replies to that on the 21st October. (Letter read.) What is this next? A.—That appears to be a draft of a bill as suggested, with the alterations. These words "Canada or elsewhere" were inserted. This will show what I think is already shown in the previous part, the draft as proposed, the underlined words being the new words.

Q.—Just having glanced at it, it seems to me to be a counter-proposition made by the Managers' Association? A.—Yes, that is about what it is.

Q.—It inserts the provision as to two-thirds of the board in the case of common stocks, two-thirds of the board assenting to the investment. Perhaps we will see how that came about? A.—I imagine there was nothing there.

Q.—Perhaps we will get the connection of that later on. Then in February, 1904, the matter seems to have been taken up between yourself and Mr. Macaulay of the Sun Life. Do you recollect how that came about? A.—No. I cannot recall just how it came about; that I think is a letter forwarding a copy of an opinion obtained from the Department of Justice.

Q.—I will read your letter to Mr. Macauley, and I won't have to read the statement of case, because we had that yesterday. (Letter read.) Then you enclose your statement of the Canada Life's position to the Department of Justice, and Mr. Newcombe's opinion in reply thereto which we discussed yesterday? A.—Yes, the same.

Q.—Then Mr. Macauley answers that on the 12th February. (Letter read.) I wonder what Mr. Macauley would call a few general remarks? A.—It is a different Macauley.

Q.—Then I see that on the 26th February, 1904, a letter was addressed to Mr. Fielding by Mr. Robert Hampson. Who is he? A.—He is manager of an insurance company in Montreal.

Q.—This is about fire insurance? A.—It relates to fire insurance. It is.

however, upon the subject of wider investments that he thought that fire insurance should have.

Q.—Perhaps we may say it is germane to the present discussion, so far as to show that the powers of investment were being considered, not only by the life companies, but by the other companies and their views being pressed upon the Government? A.—Yes.

Q.—What is this Insurance Chronicle? A.—That is furnished to bear out certain of the figures which are contained in Mr. Hampson's letter.

Q.—March 23rd, 1904. W. C. Macdonald, Toronto. Who is he? A.—He is the secretary and actuary of the Confederation Life.

Q.—Telegram to Mr. Fitzgerald 23rd March, 1904. (Letter read.) Is that relating to what we have been going through this morning, because it was not two years ago? A.—It is only one year ago. There was something two years ago to which this document refers.

Q.—Then Mr. Macdonald writes you a letter of the 24th March, "I received yesterday evening just as I was leaving your office." (Letter read.) A.—I think it is pretty evident that it is not two years ago. It must be the year before.

Q.—The next is "Proposed amendments to the Insurance Act." I see at the head of this page a statement which seems to be in your handwriting, draft submitted to the Minister 28th March, 1904. That would probably be on the Monday that they came? A.—Yes.

Q.—I see a memorandum here, Col. Macdonald, Mr. Dexter and Mr. Brown had interviewed the Minister 28th March, 1904? A.—Yes.

Q.—The first amendment proposed is about the trustee for foreign companies. It is proposed that subsection 2 of section 10 be amended by adding. (Reads memo.) That clause 3 seems to be the same as the clause that was devised the year before by the deputation who waited upon the Minister? A.—I believe it was.

Q.—Then with regard to the other clause, substantially that removes all the restrictions that were cast about investment in stock of the class mentioned? A.—Of the class mentioned, and it appears to provide that the amount, so far as foreign securities is unlimited, but the provision that the securities must be kept in Canada, except so much as is required for the maintenance of the foreign branch. That appears plain.

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Q.—And except that, two-thirds of the liabilities in Canada must be, Canadian securities? A.—Yes.

Q.—That is a very substantial alteration in the policy of the Act? A.—Oh, yes.

Q.—A very sweeping alteration? A.—Oh, yes.

Q.—Then this is a draft. That draft was submitted to the Minister on the 28th March. Then what is this? "Draft submitted by the deputation who waited on the Minister on the 28th March and 29th March? A.—Yes.

Q.—This differs when you are dealing with the public debentures; the words "or of other countries" are put in? A.—Yes, that is the addition "or of other countries."

Q.—Then comes the clause which looks more like the Minister's clause of the preceding year. (Clause read). A.—Three is substituted for five there.

Q.—And the managers' alteration of "and" to "or"? A.—Yes.

Q.—So that the adequately securing by mortgage might be either upon real estate or upon other assets? A.—Yes.

Q.—Instead of being upon all the assets? A.—Yes. I may explain that that was prepared by Mr. Macdonald, or the deputation, at all events, after the interview with the Minister.

Q.—And with the work of the preceding years before them? A.—Yes, and it was made pretty plain in the interview with the Minister that their proposition as contained in this document could not be entertained; therefore they substituted a modified form.

Q.—Here is the alteration, "Ground rent or mortgages on real estate or leaseholds; life and reversionary interest in property whether absolute or contingent." I do not think that was in the draft that was submitted to the Minister after the deputation had gone? A.—I do not know that that was ever afterwards submitted to the Minister. I am not entirely certain that it was. I discussed that with the deputation, but I am not certain that that was ever afterwards presented to the Minister.

Q.—Your memorandum does not say it was submitted to the Minister, but it says "Draft submitted by deputation who waited upon the Minister"? A.—Yes.

Q.—That you think was submitted to you? A.—Yes.

Q.—And you do not know that it ever came before the Minister? A.—No, I am not sure.

Q.—Then I see on the 7th April of that year there is another letter from Mr. Macaulay, secretary of the Sun Life, to the Minister; I think that is upon that subject? A.—It is upon that subject. (Letter read.)

Q.—Then there is a letter, which is omitted from this apparently, by Mr. Fielding to Mr. Macaulay, of the 25th of June. Perhaps its contents are sufficiently indicated by Mr. Macaulay's letter of the 5th of July in reply to it. (Reads letter from Mr. Macaulay to the Minister of this date.) Mr. Fielding answers on the 7th of July, acknowledging the receipt. (Reads this letter to end.) On the 14th Mr. Macaulay answers that letter. (Reads from "I thank you for your favor of the 7th" to the end.) Then a further letter from the managing director, Mr. Macaulay of the 26th of July, written from Prince Edward Island. (Reads from "A copy of your letter of the 7th inst. has been forwarded to me here" to end.)

Mr. T. B. Macaulay: Might I just suggest, Mr. Shepley, that there are two Macaulays. That is Mr. R. Macaulay.

Mr. Shepley: That is R. Macaulay; the other apparently is T. B. Macaulay. Mr. T. B. Macaulay is the secretary who wrote the first of these two letters and he no doubt forwarded the Minister's letter to the other Mr. Macaulay, who wrote the letter I have just read. The receipt of that is acknowledged on the 29th of July, and that seems to end the correspondence. There is more than a suggestion, a statement in this letter that you had yourself prejudged the question of legislation. I want you to make your own statement with regard to that, Mr. Fitzgerald? A.—Well, my statement with regard to that is, that it is quite unfounded. In the letters where Mr. Fielding refers to "my Department" he no doubt included himself as the head of that Department. He was not looking upon the Department from the Superintendent down as the Department, but the whole Department, including himself as the head of it. I am not aware that I ever stated at any time that certain privileges would be granted and no more; I had no authority to make it; it would have been senseless if I had made such a statement. Of course Mr. Macaulay and

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everyone else knows that the Minister at the head of the Department is the one who is responsible for the legislation. He certainly would take advice from the officers of his Department, and if that advice was approved of by him, he would act upon it; otherwise not. I may say that the draft that is given there as the draft approved of by the Minister is his own draft; it was suggested by himself.

Q.—There is one matter that you ought to be asked about besides that. Apparently when the deputation waited on the Minister on the 28th of March, you said, I think, that it became fairly manifest during the interview that their views would not prevail with the Minister? A.—Yes.

Q.—After leaving the Minister this second draft was prepared, which, while it perpetuates some of the objectionable features, makes certain concessions along the lines of the Minister's own draft? A.—Yes.

Q.—You were not able to say that that draft was submitted to the Minister? A.—Certainly not by the members of the deputation. The draft was left with me. I would not, with any degree of positiveness, assert that that was sent or given to Mr. Fielding. The subject was mentioned, I have no doubt, but it was not discussed, as far as I can recollect, specifically with the Minister, for the reason that there was no immediate possibility or probability of there being any legislation at that time.

Q.—Why? This was in March, you know, the 29th of March? A.—Well, that was March of 1904. Probably because the Minister was too busy. I think that was the principal reason.

Q.—Had he then been relieved from the duties of Minister of Railways and Canals, or do you remember? A.—I could not state that without looking it up. However, there is one thing very certain, that there was no obstruction placed in the way by myself.

Q.—I was not suggesting that there was any obstruction placed in the way, but I wanted to get as nearly as you can tell me from recollection, the extent to which communication was made to the Minister of the modified expression of views on the part of the deputation? A.—I have a recollection of speaking to the Minister upon that point, upon his asking me what the principal difference was, and my telling

him that the principal difference contained in it was the difference between three and five years.

Q.—Do you remember what view the Minister express, or did he express any? A.—Well, his inclination was to retain it, as he had put it in himself. He strongly favored the five years.

Q.—Of course, there was also this sweeping alteration permitting investments in other countries of the classes which had not been extended by previous legislation to other countries? A.—That was in the first draft.

Q.—In the public debentures clause here, and in the real estate clause, "Canada or elsewhere?" A.—Yes.

Q.—And then the other, as you say, is the substitution of the three years for the five? A.—Yes.

Q.—You think that did not meet the Minister's approbation? A.—It did not meet the Minister's approbation.

Q.—Now are there any other reasons—for I want you to tell me all that is in your mind upon the subject—was there any other reason so far as you recollect for the matter not having been disposed of or taken up between the Minister and yourself to any greater extent than it was after that deputation left it? A.—I certainly cannot think of any other reason. If it comes to my mind later on I will mention it.

Q.—Now, while upon this subject of legislation, has the matter been taken up since the correspondence I have read? A.—This was in 1904?

Q.—Yes, there has been a session and a year since then. A.—It will be noticed that in both the reports for 1903 and 1904, I have inserted something in my report to the Minister on the subject of legislation.

Q.—Will you point that out for both years in your report? A.—This is the report for 1904?

Q.—On page LXI. of your report for the year 1904 you say this, (reads from "In last year's report the desirability of an amendment to the Insurance Act in certain respects was suggested. The necessity for an amendment becomes daily more apparent" to end of paragraph.) That is signed by you as Superintendent in your report to the Minister? A.—Yes.

Q.—Then that page LVII. of your report for 1903 you say, (Reads from, "The Insurance Act. It is probable that a revision of the Insurance Act at an early date may be considered expedient and necessary" to "Seems desirable and

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might be advantageously made.") You had reference, I presume, in your report for the year 1903, to the correspondence which we have been going through to day? A.—Yes.

Q.—Why do you say here, "Opinions have differed somewhat widely as to the amendments needed, each company naturally urging such changes as would meet the supposed necessity of its particular circumstances" A.—Well, in the case where the deputations waited upon the Minister it was found that while they all wanted very wide powers, some for instance, would name some particular security they wanted included, I think in the correspondence from Mr. McCabe, it will be found that he mentioned some particular securities.

Q.—Yes, that is so. A.—And that is the subject to which I referred.

Q.—They seem, do they not, to have been pretty well at one as to the desirability, from their standpoint, of increasing the power of investing in foreign securities? Upon that subject they do not seem to have had any difference of opinion so far as I can judge from the correspondence? A.—No, some were not particularly anxious about the power to invest in foreign securities, because they were not doing a foreign business to any extent.

Q.—Those of them who were interested in the subject were not, so far as I can judge from this correspondence and the records, at all wide apart upon that question? A.—They all wanted increased powers, they all wanted wider powers.

Q.—In what respect then, do you speak of them here as having opinions differing somewhat widely? A.—Possibly that may not be entirely accurate. I think I can say this, however, that some of the companies expressed the view to me that they were entirely satisfied with the clauses as they were. They did not want any more

Q.—I can quite understand your statement here that some even went the length of favoring absolute freedom of choice without restriction of any kind. That would seem to be the key of the first communication, the earliest communication, forwarding these statements of the powers of the British and American companies? A.—Yes, that was very largely so. I have a distinct recollection of the manager of one company, who was not a spokesman at any of these deputations and did not appear as far as I remember, saying that he present Act gave all the powers that were required, in fact, that it gave wider powers than

there was any necessity for as far as his company was concerned

Q.—Will you identify that gentleman? A.—That was the manager of the Mutual Life of Canada.

Q.—His name? A.—Mr. Wegenast.

Q.—The Mutual Life of Canada carries on business where? A.—The head office is at Waterloo.

Q.—Then, to come back to where I was when you referred to these two reports of yours. I was asking you what, if anything, had been done by way of taking up or discussing this subject since the year 1904, that is during last year? A.—In the autumn of 1904, October or November or December, along there, I prepared a draft bill.

Q.—With a view of suggesting its introduction? A.—Yes, and had it printed, that being a copy of it. (Exhibit 38).

Q.—This is a copy of the draft which you prepared and had printed? A.—Yes.

Q.—That, you think you did in the year 1904? A.—That was done in the year 1904.

Q.—I put that upon the records. (The correspondence last read is now marked Exhibit 37 and the draft bill Exhibit 38).

The Chairman : That bill was intended for the session of 1905? A.—For the session of 1905.

Mr. Shepley : Give me in your own way an historical account of what was done upon the subject of legislation. A.—This draft was prepared in the fall of 1904 or the early part of 1905, and I sent it to the Minister with a memorandum suggesting its introduction. That memorandum is not in, as a matter of fact, but I can get it. (Afterwards marked Exhibit 39.)

Q.—Then we will have the memorandum in which you introduced this proposed bill to the notice of the Minister? A.—Yes.

Q.—Well? A.—The Minister was absent in Europe and did not return until pretty late in the session. The session was tolerably well advanced when he returned.

Q.—Was he absent in Europe at the opening of the session? A.—He was absent at the opening of the session and remained absent for I should say almost two months, but I think that date will be ascertainable.

Q.—Was your draft sent to him before he went to Europe? A.—It was not. I think it was ready for him when he returned.

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Q.—And you can find the date of his return for us? A.—I can.

Q.—And your memorandum, I suppose, will show the date upon which you delivered the bill to him? A.—I should think it would.

Q.—Then go on with the account of it. The session was well advanced when the Minister returned and you gave him the bill? Then what? A.—Later on he mentioned the subject to me, but on account, I suppose, of pressure of work it was not taken up, it was not introduced.

Q.—Now, were the insurance companies or the Managers' Association engaged during that session in pressing for legislation upon the lines of the year before? A.—Not that I remember specially. I don't think I have had any communications from them. If so, I would have the correspondence here. I have no specific recollection of it. However, I will have a search made for correspondence during the year 1905 with regard to it.

Q.—Then I think we may take up this bill of yours and go through it. (Exhibit 38.) The first thing you do is to amend the fifth section of the Insurance Act, or propose its amendment by making it read as follows. (Reads proposed section.) The fifth section at present is. (Reads section 5 of the Act.) Your proposed substitution is. (Reads from "The license shall be in such form as from time to time determine by the Minister" to end of paragraph.) Had there been instances of limitation in the territory covered by the licenses issued by your Department? A.—There never had been. We are advised that under the Act the license issued must be a license for the whole Dominion and cannot be for a portion of it.

Q.—Then you thought it desirable to amend that by retaining the power to limit? A.—Yes, that is to grant a license for one or two Provinces instead of for the whole Dominion. That was brought about in the case of foreign companies wanting to do business in a particular Province, but would not do business throughout the whole Dominion: they did not care to and would not make the amount of deposit requisite and the result would be, either that that company did not come into Canada at all to do business, or else it did an unlawful business. I was anxious to frame the law so as to make

it possible to allow a company to do business in a particular Province and so bring it under the Act that we could ascertain what its business was, the nature of its transactions, and so on.

Q.—Did your proposed legislation make any qualification in the case of the amount of deposit where the territory was limited? A.—It did later on in the bill.

Q.—Then your second clause is to repeal clauses A and B, which are definitive clauses with regard to guarantee and accident insurance? A.—Yes.

Q.—I do not think I will follow that out. Then section 3 of your proposed bill deals with an important matter. It is section 2 of chapter 13 of the Statutes of '99, by section 6 B added to the Act. Section 6 B is about the license. (Reads from "The license shall not be granted" to "such as may be combined under the provisions of the next preceding section.") What was the necessity for that? A.—There is a proviso there to the effect that in the case of companies other than Canadian, licenses may be granted to them, notwithstanding their wide powers upon their making an additional deposit. That related exclusively to companies other than Canadian. The proviso intended to be added would extend the same right to Canadian companies. As the Act stands at present a Canadian company doing, for instance, life and accident business could not obtain a license to transact life insurance, and it was to cover that difficulty that the clause was proposed.

Q.—Then your fourth section deals with the question of the deposit in the case of a company whose territory is limited? You amend section 7 by adding this: "Provided, however, that where a license limited to one or more Provinces of the Dominion is granted, the Treasury Board, on the report of the Superintendent, may authorize the acceptance of an initial deposit less in amount than in this section mentioned." A.—Yes.

Q.—That is the complement of your first provision. Then your fifth section enables a deposit to be made by a foreign company with a trust company? A.—With a trust company.

Q.—It widens the range of trustees? A.—Yes.

Q.—Then your sixth section amends section 12. That is with regard to the documents to be filed in the Department

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before the issue of a license and you add there that any such document shall be accepted by the Department, if it would be accepted as evidence in a court of law. What did you mean by that? A.—As the law now stands, if there is an Act of the Dominion Parliament passed, and a company having a charter from the Dominion comes to us for license, we are obliged to get that Act certified by the Clerk of the Parliament, Mr. Chapleau. I intended to cover by that that we might accept a copy of the Act issued by the King's Printer. In the case of an English company we could not accept a copy of the Act as printed in the Imperial Statutes, but were obliged to get a copy of the Act certified by the Clerk of the Parliament in Great Britain. It was to cover that.

Q.—That was because the statute read, "Certified by the proper officer in charge of the original thereof." A.—Yes.

Q.—Then section 7 of your proposed bill. (Reads from "The words 'insurance company' in the sixth line of section 22 in the said Act" to "carry on any kind of insurance.") That is the penalty clause for issuing a policy in contravention of the Act? A.—Yes, then the agent is liable for the penalty. The agent for the company. If he represents a company and the agent transacts business without that company being licensed, he is liable to a penalty. To take a Lloyds Institution, such as there are occasionally, if it came into Canada and did business the representative of that company would not under the section as it now reads be liable to a penalty. It is to cover that point. It is a case which actually arose. We had information upon it.

Q.—That would be more in the subject of fire insurance? A.—Yes, it had reference to fire insurance in reality.

Q.—Then subsection 4 of section 8 you amend? A.—Yes, under section 24, as it now reads, a company incorporated ceases to exist at the end of two years unless within that two years it obtains a license, and the charter is absolutely forfeited. A case has arisen in which considerable hardship arose by their own special Act? A.—They are. In the case of the Mutual Reserve it was not found to have worked from that transaction, and it is intended to cover that. The case I refer to is reported in the Ontario Law Reports.

Q.—Your amendment is aimed at, permitting them to be wound up, although the special Act has gone out of force? A.—Yes.

Q.—Then your ninth section repeals section 42a? A.—42a is one that was added in 1899. That is about assessment companies.

Q.—They may after notice obtain a reserve like ordinary companies? A.—Yes.

Q.—You repeal section 42a altogether? A.—Yes.

Q.—The object of that was what? A.—Well, we had that in going over the Act. Notice had been given only by one company, that is the Mutual Reserve Life Insurance Company. There is only one other company which could give the notice, an association rather; that would be the Foresters. It is the only one that could.

Q.—And the Foresters are dealt with by their own special Act? A.—They are. In the case of the Mutual Reserve it was not found to have worked satisfactorily. It practically divided the business of the company into two sections, the business transacted on the assessment principle and the business transacted upon what is known as the level premium principle. The Mutual Reserve, after having had it in operation for a short time, found it necessary to come to Parliament and obtain an Act which will be found in the statutes of 1904.

Q.—That Act enabled them to convert their policies? A.—Into level premium policies.

Q.—Then the tenth section of your proposed bill provides that: ("After the passing of this Act no company shall be licensed to carry on the business of life insurance on the assessment plan," reads to end of paragraph). That was by way of reinforcing your repeal of section 42? A.—Yes, to the effect that hereafter no company should be licensed to do business upon the assessment plan.

Q.—Then in section 11 you frame a new section 49, which is in respect of insurance other than life, fire or marine. Then section 12 substitutes a new section 50, and that we will have to deal with a little more in extense. Section 50 is repealed and the following substituted therefor. (Reads from "Any life insurance company which derives its corporate powers or any of them from an Act of the Parliament of Canada" to "Public school corporation in Canada.") In that clause you widen the provisions of 50a of the existing Act? A.—Slightly. In any country where the company is doing business. I think to that extent.

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Q.—You have brought in the securities of the United Kingdom or any colony or dependency thereof, or of any country where the company is engaged in transacting business? A.—Yes.

Q.—Then subsection B, you have divided that into three heads. "The bonds of any company incorporated in Canada or elsewhere, which bonds are secured by a mortgage to trustees or otherwise upon the real estate and other assets of such company, and which real estate and other assets are of a market value at least 25 per cent. in excess of the amount of the bonds so secured thereon." A.—That is to take the place of the Minister's approved clause. The word, you will remember, in that clause was "adequately." There is a difference made there, because I found in conversation with different people that the word "adequately" is misunderstood. It is difficult, at all events, to say precisely what "adequately" would mean.

Q.—It would raise a possible difference of opinion between those who are operating under the Act and those administering it? A.—Yes, those who are endeavoring to enforce it, to administer it.

Q.—When you transmuted the word "inadequate" into a margin of 25 per cent? A.—Yes, not being at all satisfied that that would meet the approval of Parliament or of the Minister, but to put it in a light in which it could be discussed.

Q.—Then you also reverted to the Minister's draft by providing that the mortgage should be secured upon the real estate "and" other securities? A.—Yes.

Q.—So as to cover all the property, not making it disjunctive "or"? A.—Yes.

Q.—Then the second clause of B is as follows. (Reads from "The evidence of indebtedness of any such company" to "prior to the time of investment." Now that I think is the Minister's draft? A.—The Minister's draft.

Q.—"3. The stocks of any such company upon which regular dividends of at least 5 per cent. have been paid." That I think is the Minister's draft? A.—Yes.

Q.—Now you have an alternative clause B. I think you have two alternatives here? A.—Yes, there is another alternative.

Q.—What is the object of this alternative clause B? A.—For the purpose of putting before the Minister the views

of the deputation that had been to the Department.

Q.—(Reads from 1st, the bonds of any company incorporated in Canada or elsewhere," to "security.") That is the same as your first. A.—Yes, the difference is a little lower down.

Q.—(Reads from "2. The debentures or other evidences of indebtedness of any such company" to "prior to such investment.") The difference there is what? A.—In successful operation for at least five years.

Q.—The other was that the bonds had been outstanding for a period of five years. A.—Yes.

Q.—Then that would afford an opportunity of investing in debentures before it had been found out whether they would pay interest or not, while the other would not? A.—Yes.

Q.—Then your third is, "The stocks of any such company upon which regular dividends have been paid." A.—That is the same clause.

Q.—The same as in the first alternative? Then your next clause "C" is the stock of any chartered bank in Canada. You put that in a clause by itself. You leave the power to invest in bank stocks? A.—Yes, that is the same, no alteration has been suggested in that.

Q.—Clause "D." Ground rents or mortgages on real estate in Canada or elsewhere. (Reads from "Provided that the amount paid for any such mortgage shall in no case exceed 60 per cent. of the value of the land covered by said mortgage," to end of clause.) The extension there is to the foreign country and the restriction is as to the margin. A.—Yes.

Q.—You fix a margin beyond which they must not lend and extend the power to foreign countries? A.—Yes, necessarily, as the other powers were extended.

Q.—Then your next clause is "Life, endowment or policies for contracts issued by the company," the "or" should come before "endowment," should it not? It means "Life, endowment or other policies." A.—Yes, it is not intended to change that.

Q.—"F. Any securities accepted by the treasury board as deposit." A.—That is the same clause.

Q.—You have left "D" out. That was sufficiently included. That is the public consols of the United Kingdom and so on. That is sufficiently included

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in your first enumeration of public securities? A.—Yes.

Q.—Therefore that becomes unnecessary. Then 2 is a little different in the second part of it. (Reads from "Any such life insurance company may lend its funds" to end of clause.) That you extended similarly to the other? A.—Yes.

Q.—That is you extended it to the foreign countries and you restricted the investment to a 40 per cent. margin? A.—Yes.

Q.—That is to 60 per cent. of the value. Then the 3rd subsection of section 50 provides for any insurance company besides a life insurance company, according to your draft of it. It disappears altogether therefore from the scheme of life insurance company investments? A.—Yes.

Q.—Sections 4, 5, 6 and 7 of the old Act go out altogether apparently? A.—Yes.

Q.—Unless they appear elsewhere, 8 is reproduced as 4, and I think is in precisely the same terms in your draft. That is the power to take further collateral security of any nature? A.—Yes, that remains as it was.

Q.—And your 5th is in precisely the terms of the old subsection 9, and 6 is the same as the old subsection 10, it is in precisely the same terms? A.—Yes.

Q.—Then you propose another alternative for that section by merely amending section 50 instead of repealing it and substituting a new section. A.—Yes, a proposed alternative.

Q.—And there your proposition ends, if that is accepted, to strike out 10 whenever it occurs in sections 4, 5 and 6, and substitute the word 25, that is the effect of that. A.—Yes, 25. That would be to increase the margin of foreign securities from 10 to 25 per cent.

Q.—Then you add to subsection 6 of the old Act in this alternative section, 6a and 6b. Section 6a is (reads from "Any such life company which does business outside of Canada but does not transact business either in the United Kingdom or the United States" to the end of clause.) That is it may invest in American securities? A.—Yes.

Q.—"Shall not exceed by over 25 per cent. the amount of the reserve upon its outstanding policies in force outside of Canada, such reserve to be calculated upon the basis prescribed by this Act."

You increase the margin there to 25 per cent.? A.—Of course at present, as it now stands, a company doing business outside of Canada, but not doing business either in the United Kingdom or the United States, cannot invest in foreign securities, and the intention is to give that company the same privilege of investment.

Q.—Why 25 per cent.? A.—It is the same as the other. I propose to increase it to 25 per cent. in the earlier part of the session.

Q.—That is in line with the other suggestion of changing 10 to 25? A.—Yes.

Q.—That change from 10 to 25 is in favor of the insurance companies power, it extends their power of investment beyond what the other Act did. A.—Yes.

Q.—What was your object in suggesting that the companies should get the additional power between 10 and 25 per cent.? A.—Well, just again to bring the subject before the Minister directly. It had been urged and suggested that the Act was all right in its present form, the range of securities sufficiently wide, but the margin it was possible to invest outside of Canada in foreign securities was not sufficient. Simply to bring the matter up for discussion.

(Adjourned to 2 p.m.)

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AFTERNOON SESSION.

Examination of Mr. Fitzgerald continued:

Mr. Shepley: We had got, Mr. Fitzgerald, through your alternative substitutions for section 50. We will complete the proposed bill. Your next proposed section is number 13, and that added a section 53 to the Act, the Act at present having only 52 sections. Clause 13 is: (Reads from "the said Act is hereby amended" to "change to the name proposed in the application.") What is the object of that? A.—The new section 53 enables a company to change its name. The last case of a name being changed was that of the Ontario Mutual Life changed to the Mutual Life of Canada.

Q.—Are you reading from a memorandum? A.—Yes, a memorandum to the Minister.

Q.—You may refresh your memory from that and I shall put it in as part of the record, that being the memorandum you addressed to the Minister on the subject of the proposed bill? A.—Yes. (Afterwards marked Ex. 39).

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Q.—Then the second subsection of the proposed new section is in relation to suits against a company whose name has been changed. The purpose of that is obvious. (Reads subsection 3). Then section 54, reserve liability? A.—That relates to fire companies altogether.

Q.—Then we will not touch that; 56 relates to fire and marine companies apparently. Then the new section 55. (Reads from "The superintendent shall allow as assets" to end of paragraph). The purpose of that section? A.—The purpose of that section is as far as possible to prevent companies from investing in securities that are not authorized by the statute.

Q.—In other words, it gave you power in your annual report to disallow any assets which were unauthorized? A.—That is the idea.

Q.—Then 56 does not apply to life companies? A.—No, 54, 56 and 57.

Q.—I should think 57 perhaps does apply? A.—Possibly it may.

Q.—"The directors of any company which derives its corporate powers from an Act of the Parliament of Canada." That does not confine it to any particular kind of company? A.—No.

Q.—(Reads this section.) What was the object of that? A.—When a company's capital becomes impaired, to authorize them to write off the amount of the impairment.

Q.—I see you have provided that no part of the assets shall be distributed in respect of the amount written off? A.—Yes.

Q.—And then you have provided that there shall be no reduction of capital below the minimum amount fixed by the Act, or, if no amount is fixed by the Act, below the amount fixed as necessary for the purposes of the deposit? A.—Yes. Of course that latter clause would refer altogether to companies other than life.

Q.—Then you proceed to deal with the question of impairment. (Reads from "the capital of a company shall be deemed to be impaired" to "calculated according to the requirements of this Act.") I think we have had an instance or two of that in some of Mr. Blackadar's reports which we have not come to with you yet. (Reads subsection 3 and 4). What was that subsection intended to refer to? A.—It was intended to refer to this, that notwithstanding the reduction the shareholders should remain liable to creditors or

policyholders in the same way as if it had not been passed.

Q.—That is that they should be bound to pay up the par value of the stock originally subscribed, notwithstanding the writing off of a portion of it by way of impairment? A.—That is the intention.

Q.—(Reads section 5 from "The directors may increase the paid-up capital" to "paid-up capital stock.") What is the object of that clause? A.—Just a usual provision in cases of the kind where the capital of a company is increased, the first intention is if a portion of it has been written off to allow it to be written back again to the same extent out of profits or to sell new capital stock.

Q.—For the purpose of bringing back the amount of the impairment into the capital? A.—Yes, that is the object of it.

Q.—Then you have substituted new forms for the yearly returns? A.—Yes, there are not very many differences.

Q.—Can you tell me without my going through them in detail, what the differences are, what changes you purport to make in the form of annual return in this substituted schedule? A.—I really do not remember exactly what was in that schedule to the new bill at the present time. It was compiled quite a length of time ago.

Q.—Then I think I will go through it. What generally was your object in modifying the form of return? A.—Well, it was to make it more adaptable, so that we could more readily get at the information for which we ask. I think it contains amongst other things a list of the directors of the company. That is not provided for by the statute. I think it makes provision for that.

Q.—It is "details of yearly statement of life insurance." It commences "A list of the stockholders, with the amount subscribed for, amount paid thereon, and the residence of each stockholder"? A.—That is the same.

Q.—"A list of the directors of the company." A.—That is not here.

Q.—That is new? A.—Yes.

Q.—"Specifying assets as per ledger accounts." A.—That is here.

Q.—"The value as nearly as may be of the real estate held by the company." A.—That is the same.

Q.—"The amount secured by way of lien on real estate, whether by mort-

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gages, bonds or any other security, distinguishing between those having first or second lien on such real estate." A.—That is the same.

Q.—"The amount of stocks, bonds, debentures and debenture stocks held as collateral securities for loans, stating the par and market value of each kind and the amount loaned thereon." A.—The next clause here is the amount of loans secured by bonds or stocks or other collateral. That is the way it reads.

Q.—Then I will put that as amended? A.—Amended.

Q.—What is the force of the amendment there? A.—The way it reads here is the amount of loans secured by bonds or stocks or other collaterals. And the wording there?

Q.—(Reads same clause). This is a more comprehensive statement of the collateral securities themselves? A.—Exactly.

Q.—"The amount of loans as above on which interest has been overdue for one year or more previous to such statement with a schedule thereof." A.—The amount of loans as above on which interest has not been paid within one year previous to such statement with a schedule thereof.

Q.—That says "within one year." A.—Has not been paid within one year.

Q.—"The amount of loans made in cash." A.—That is the same.

Q.—"Premium notes, loans or loans on policies in force." A.—That remains the same.

Q.—"Par and market values and value in account of Canadian and other stocks owned by the company, specifying in detail the amount, number of shares, par and market value, and value in account of each kind," and so on. A.—That is considerably more extensive than it is here. It reads here, "Par and market values of Canadian and other stocks and securities owned by the company, specifying in detail the amount, number of shares and the par and market value of each kind." That requires not only the par and market values, but the value in account, the book value.

Q.—You ask here also for the rate, if fixed, on any preferred or guaranteed stocks? A.—Yes.

Q.—"Par and market values and value in account of Canadian and other bonds," that I suppose is a similar modification of the old? A.—"Par and market values."

Q.—You have changed this just as you did the other. This reads "Debentures and debenture stocks." The other was stocks? A.—Yes, it is separated into two there. This is put "Stocks and other securities." There is one of stocks and the other of debentures, separating them into two.

Q.—You are asking by this clause precisely the same information as you are for stocks in the first? A.—Precisely the same.

Q.—"Amount of cash at head office." "Bills receivable." "Agents ledger balances." A.—These are the same.

Q.—"All other ledger assets." A.—That is not here.

Q.—You are maintaining in this bill, you are not interfering with the discretion of the Minister to alter the form of return from time to time? A.—Oh, no, not at all.

Q.—Then other assets. Have you got another item for other assets there? A.—Yes.

Q.—"Market value of stocks, bonds, debentures, etc., over value in account?"

A.—That was not in. Perhaps it is another place.

Q.—That would seem to give you in another form the same information that you get under the other clause? A.—Yes, that is in the old form, but not specifically mentioned in the statute.

Q.—You would already have that statement any way inferentially from the other two clauses. "Interest due and accrued"? A.—That is the same.

Q.—"Rent due and accrued"? A.—That is the same.

Q.—"Due from other companies for losses and claims, etc., on policies"? A.—The same.

Q.—"Amount of uncollected and deferred premium." A.—The same.

Q.—"All other non-ledger assets owned by the company with details?" A.—There is here "commuted commissions" which is dropped out.

Q.—"Liabilities" is the next head. "Net present values of all outstanding life annuity contracts." (reads to "those reinsured.") A.—That is a little broader than it is here.

Q.—The broadening of it is that you have made it clear that this applies to annuity contracts and made it clear that it includes reversionary additions and premium reductions? A.—Yes.

Q.—"Present value of amounts not yet due on matured instalment policies." A.—That is an item put in on

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account of a practice which has arisen in very recent years. It is the habit now in many cases to issue a policy where the whole of it is not payable at death but the amount is payable by instalments from year to year and that is to cover that particular policy. That is new.

Q.—“Claims for death losses and matured endowment and annuity claims due and unpaid or in process of adjustment or adjusted but not due or resisted” A.—That is the same.

Q.—“Surrender values claimed or claimable in respect of cancelled or lapsed policies.” A.—That is an item which is not here, that is new.

Q.—“Dividends to stockholders?” A.—That is the same.

Q.—“Amount due on account of office expenses?” A.—The same

Q.—“Amount of loans?” A.—The same.

Q.—“Amount of all other claims against the company?” A.—Yes.

Q.—The next head is “Income.” “Amount of cash premiums received less reinsurance premium notes loans or liens taken in part payment.” (reads to) “for renewals of those previously existing.” A.—That is a little different from this.

Q.—You have left out this what? A.—“Premiums paid by dividends including reconverted additions.

Q.—That is struck out for the purpose of this? A.—Yes.

Q.—Why? A.—I am afraid I will have to ask Mr. Blackadar what that is.

Q.—Then we will pass that over. You have not there stated separately, the net premium received on new policies for renewals? A.—No, that is new.

Q.—“Cash received for life annuities?” A.—“Cash received for annuities,” are the words here.

Q.—“Amount of interest received?” A.—The same.

Q.—“Amount received for rents?” A.—The same

Q.—“Net amount received for profits on bonds, stocks and other property actually sold.” A.—The same.

Q.—“All other income in detail.” A.—Yes.

Q.—Then “Premium note account” is the next. “Premium notes, loans or liens on hand at date of last previous statement.” A.—The same.

Q.—“Additions and deductions in detail during the year.” A.—That is the same.

Q.—“Balance note assets at date?” A.—The same.

Q.—“Expenditure.” Total amount actually paid for losses and matured en-

dowments including payments on matured instalment policies, stating separately the amount paid for each class?” A.—That is rendered necessary by the fact that recently instalment policies have been issued. That is new.

Q.—Either new or amended? A.—As it reads here it is, “Total amount actually paid for losses and matured endowments.”

Q.—That is amended then? A.—Yes, not wholly new.

Q.—“Cash paid to annuitants and surrendered policies?” A.—The same.

Q.—“Premium notes, loans or liens?” A.—The same.

Q.—“Dividends paid to policyholders or applied in payment of premiums?” A.—That is not here, unless the order is changed. It is here lower down.

Q.—“Premium notes, loans or liens used in payment of dividends to policyholders?” A.—The same.

Q.—“Cash paid stockholders for interest or dividends.” “Cash paid for commissions, salaries and other expenses of officials” “Cash paid for taxes, licenses.” etc.” “All other expenditure in detail?” A.—Those are the same.

Q.—Is there anything there that is left out? Have you checked them as I went? A.—I did not, sir. I think probably “reconverted additions.”

Q.—Where do they occur? A.—“Cash surrender values including reconverted additions applied in payment of premiums.” That clause is here.

Q.—Then I will note, “See omission from this group.” “Exhibit of policies.” Have you that heading? A.—I have.

Q.—Then in parentheses in the several items under this heading, “The policies are to be divided as nearly as practicable” reads to) “With the additions applicable thereto respectively?” A.—That is new. That is not here

Q.—You did not require in your exhibit of policies this division according to the statute. A.—It is not according to the statute.

Q.—“Number and amount of policies and additions in full at the end of the previous year.” A.—That is the same.

Q.—“New policies and changes.” “Policies terminated,” “Number and amount of policies in force at date of statement.” “Reinsurance.” A.—Those are the same.

Q.—Is there anything omitted from what group? A.—No.

Q.—This just provides for the division of the old return according to the class of policy. The next heading is

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"Synopsis of ledger accounts." A.—That is new.

Q.—This is all new? A.—Yes.

Q.—"Show amount of net ledger assets at the beginning of the year." A.—That is new.

Q.—The other schedule relates to other kinds of insurance and we will not talk about that. Now let me take that memorandum of yours. This is the memorandum which you submitted to the Minister along with the draft bill? A.—Yes. (Ex. 39).

Q.—This I propose to read, because I suppose this fairly states your position with respect to this legislation? A.—It does, and, of course, it will be understood that there will be a verbal explanation in addition to this probably in connection with every clause of the bill.

Q.—Do you remember that there was in fact verbal discussion between the Minister and yourself? A.—With regard to that?

Q.—Yes. A.—There was not. The Minister never took it up.

Q.—You mean if the matter had been taken up? A.—There would have been.

Q.—This would have been followed by more amplified discussion? A.—Yes.

Q.—This is headed "Memo. regarding proposed bill to further amend the Insurance Act." (Reads from the beginning to "before the present session.") That aspiration has not been realized, that it would go into effect after that session? A.—It has not.

Q.—I take it that you handed a copy of the bill which you had marked in red ink to the Minister? A.—Yes.

Q.—(Reads from "At present if a license is issued under the Dominion Insurance Act" to "Proposed new section 5.") I do not know whether this is correctly copied. The word "continual," I should have thought you meant "a conditional renewal." A.—Conditional is what it means.

Q.—Perhaps that is a mistake in the copying. I think I will change it here. "A conditional or limited renewal." Then section 2. (Reads). We will pass that over. (Reads section 3). That was to bring Provincial companies into the same category in that respect as foreign companies? A.—As foreign companies.

Q.—Section 4. (Reads). As you have pointed out to me already that is supplemental to the provision for limited licenses? A.—Yes.

Q.—(Reads sections 5, 6 and 7). You set out the penalty clause, underlining in red ink the words "insurance company." Fire or inland marine insurance company. (Reads). That is the prohibitive clause. Then section 8 The amendment adds after the words "in force" the words "except for the sole purpose of the winding up of its affairs." (Reads sections 8 and 9). That, of course, was amended by a prohibition against assessment business? A.—Yes.

Q.—Section 10. (Reads from "This section is self-explanatory.") Is that reference strictly accurate? The Foresters are licensed under the special provisions of their Act? A.—But the provision of the statute is that, notwithstanding anything contained in the Insurance Act, this particular order may be licensed thereunder. I think those are the words of it. Of course, it is by virtue of the special Act.

Q.—I think we shall have some talk with you about that a little later on. I think there was a great contest between the Department and the Foresters as to whether or not they were entitled to register as an assessment company or not? A.—There was previous to that Act and then they got a special Act.

Q.—And the special Act governs? A.—Yes.

Q.—They take out a license under the special Act, do they? A.—Yes—well, I should say—

Q.—They do not comply and are not compelled by the provisions of their Act to comply with the assessment provisions of the Insurance Act? A.—I don't think that is the effect of the Act precisely.

Q.—Then we will not discuss that now? A.—The Act will speak for itself on that point.

Q.—We will have to deal with that when we come to the Act itself. Then without going through this graveyard, you put an end to assessment business. Then that is all by way of explanation of your proposed alteration of the assessment clauses? A.—Yes, and to abandon the assessment method for the future.

Q.—Section 11. I think, is a fire provision. Then section 12. (Reads from "This section relating to investments is one of the most important in the bill" to "Render the investments thereunder reasonably safe.") That is the doing profitable business clause? A.—For five years, yes.

Q.—"If, however, section 50 is not

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approved of in the form suggested." That is the 25 per cent. instead of 10. You mean the margin there over and above the reserve? A.—Yes.

Q.—"The classes of securities remaining as at present" (reads to "British and American securities"). That you have explained to us fully enough. Section 13. That is as to the provision for change of name. Then section 54 to 57. (Reads from "More machinery required.") You speak of it there as relating to fire companies. I thought in your bill it was broad enough to apply to all companies? A.—As to the question of reserve it applies only to fire companies.

Q.—As to impairment of capital? A.—That will apply to life companies as well. I think so.

Q.—The new section 54 relates to fire insurance, and we will pass that over. Section 56 is self-explanatory and section 57 is fire insurance. Then that is your memorandum upon the proposed bill and that I put in also as part of the records. (Exhibit 39). A.—Now I have ascertained that Parliament opened on the 12th of January, 1905; that Mr. Fielding returned on the 28th of February, 1905, and on the 28th of February, 1905, that bill was sent to him, that memorandum with a copy of the bill.

Q.—He was not here at the opening of the Parliament in January, but returned on the 28th of February? A.—Yes.

Q.—And on the same day you sent him the bill with the memorandum? A.—Yes.

Q.—That would be in 1905? A.—1905.

Q.—And I think you have already said to me that you are not aware of any particular agitation among the fire insurance companies for legislation during that session? A.—The fire insurance companies were.

Q.—I intended to say life insurance companies? A.—No, I am not aware of any.

Q.—The bill as a matter of fact never was taken up? A.—It never was taken up.

Q.—Can you recall at all having at any time after you delivered the bill with the memorandum to the Minister; any conversation with him upon the subjects of the bill? A.—Beyond mentioning something of this kind, that he had received the memorandum and he hoped to have time by and by to take it up and discuss it. I remember that in par-

ticular certainly on one and possible on two occasions, but nothing more.

Q.—The session of 1905 was a long session? A.—Well, not so long.

Q.—Not so long as the session before? A.—The House adjourned on the 20th of July, 1905.

Q.—It was a strenuous session? A.—I think so.

Q.—And the Ministers were kept pretty well with their necks up to the collar? A.—Yes.

Q.—Did you ascertain whether Mr. Fielding, when he came back from Europe, had been relieved of the duties of the second cabinet position? A.—No, I did not. I have not been at the office since I was here, and that is a thing I have not ascertained. However, I can undoubtedly obtain that information.

Q.—I think at present, Mr. Fitzgerald, that is all I have to ask you upon that subject. We come back again then to this memorandum. We have so far been dealing with the first matter spoken of in the memorandum that was prepared yesterday while you were giving your testimony. Come to the second. A.—"Also show by returns for business of 1904-05 of the Sun Life whether foreign investments decreased and whether there was an increase or decrease in uninvested funds of the company."

Q.—That was I think in reference to some questions which Mr. Smith was good enough to permit me to make. If you will read that you have got about that please? A.—"Assuming the company's own basis of calculation." Foreign investment \$7,836,426.53. December 31st, 1905, \$8,961,978.83. The reserve on foreign business at 31st December, 1904, was \$7,369,326; and at the 31st December, 1905, \$9,074,065. It appears from the foregoing that the increase in foreign investments, according to the company's own showing, has not increased as rapidly as its foreign reserves. Relatively there was a smaller increase."

Q.—And does it appear or does it not, according to the figures which you have given us, that the Sun Life foreign investment account exceeded by more than 10 per cent. the foreign reserve in either of those years? A.—Well, as a matter of fact, I think in some of the correspondence that was read this morning it was admitted by us.

Q.—Not according to those figures, if

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the reserve was seven million and the foreign investment only eight.

Mr. Grant: That is the reserve plus 10 per cent.

Mr. Shepley: You said the reserve? A.—Oh well, I did not read it all then.

Q.—The reserve plus 10 per cent, so that in 1904 the foreign investments exceeded by 4 or 5 hundred thousand the foreign reserve plus the 10 per cent., while in 1905 the foreign investments had fallen below by \$110,000 or thereabouts? A.—As to whether there was an increase or decrease in uninvested funds of the company?

Q.—You have given us a memorandum of the cash in bank of the Sun Life. In 1903 the cash in bank was \$145,000. I am not giving the odd dollars and cents. In 1904 it had increased to \$424,000, and in 1905 it had increased to \$999,000? A.—Yes.

Q.—I will put that memorandum in as Exhibit (No. 40). That is, I think an answer to Mr. Smith's questions of yesterday. Now what is the next matter mentioned in the memorandum? A.—"Produce all documents, including correspondence relating to investments." "Verify securities mentioned in Mr. Burke's letter of March the 6th, 1906." "Are legitimate securities under the Insurance Act?" "The securities mentioned are three hundred shares Light, Heat and Power. Two hundred shares Richelieu & Ontario Navigation Company, and 50 shares Montreal Street Railway."

Q.—The question was whether all these were legitimate under the Insurance Act?

Q.—Yes. A.—I take the 300 shares light, heat and powers to mean the Montreal Heat, Light & Power, I presume so?

Q.—Yes. A.—Well, of course, these are held by a number of companies and probably, as generally understood, are legitimate under the Insurance Act, but viewed in the light of the opinion given by Mr. Newcombe, inasmuch as it is Light, Heat and Power, if Mr. Newcombe's opinion is to be construed just as it reads and if that be the correct law, then possibly these would not be, because there is no class in the Insurance Act which mentions "Light, Heat and Power."

Q.—Because of the triplication of the objects of the company? A.—That is the reason. Otherwise they are all within the provisions of the Insurance Act. There are at least three other companies which have the same shares.

Q.—That is the Montreal Light, Heat & Power; and the other securities were Richelieu & Ontario Navigation Company, and the Montreal Street Railway? A.—There is no doubt about those two.

Q.—The only doubt is in connection with the Light, Heat and Power, which you assume to be Montreal Light, Heat & Power? A.—Yes.

Q.—And which expression in the Insurance Act do you bring the Light, Heat and Power under, assuming that the opinion does not apply to their exclusion? A.—In the list there is no company mentioning Light, Heat and Power, there is no combination of that kind in the Act.

The Chairman: There is "Light and Power" and "Heat and Light." A.—Yes, sir, but not "Light, Heat and Power."

Mr. Shepley: Then you give these as the holdings of certain companies, the Montreal Light, Heat & Power Company's stock? A.—There are three companies and there may be others, but those three certainly hold them.

Q.—I will just have that go upon the record in this shape, the Sun Life, you are speaking of the returns of 1905? A. Yes.

Q.—The Sun Life holds \$39,000 par value of the Montreal Light, Heat & Power. Federal \$50,000, and the Canada Life, \$100,000. The Canada Life holds bonds and the other two companies hold stock.

Q.—Now what else have you to take up from yesterday's reliquiae? A.—I don't think there is anything else from yesterday.

Q.—You think now, you have covered all the matters we were not sure about yesterday. Then I propose with the assent of the Board, to take up some discussion by way of correspondence and report that took place the instance of a gentleman named Mr. Rudolph Madore, who is the loan manager of the Travellers' Insurance Company. The correspondence begins by a letter from Mr. Laflamme of Montreal to the Premier, dated the 6th of November, 1901. (Reads this letter). Then a letter which is enclosed addressed to Mr. Laflamme by Mr. Madore, although his name does not appear to the copy of it. This letter is dated the 4th of November, 1901. The first paragraph of it is with regard to a personal matter between himself and Mr. Laflamme, and I do not read that. (Reads from "As you are aware the Government requires from the insurance companies carrying on business in Canada" to "and the registration

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Discussion

radiated.") Is that a word in the Province of Quebec, radiated?

The Chairman: Discharged.

Mr. Shepley: (Reads on to end of this letter). Then I see a memorandum which I think is in the Minister's writing: "Mr. Courtney and Mr. Fitzgerald to consider this and see Mr. Fielding." Is that Mr. Fielding's writing on November 8th, 1901? A.—Yes, this is the memorandum which was made and submitted to Mr. Fielding.

Q.—Was this prepared jointly by yourself and Mr. Courtney? A.—No. I think it was prepared by myself.

Q.—It was in pursuance of the Minister's instructions that you prepared this report? A.—Yes.

Q.—Then I read the report of Mr. Fitzgerald, made by the Minister's instructions upon Mr. Madore's memorandum.

The Chairman: Before you read that, Mr. Shepley, I think it will be convenient to adjourn now until Wednesday next at 10 o'clock.

(The Commission then adjourned to Wednesday, the 28th March, 1906.)

Ottawa, March 28th, 1906.

ELEVENTH DAY.

The Commission Resumed at 10 a.m.

Mr. Shepley: Mr. Chairman: It is proper that I should make a statement with regard to considerable correspondence and communications. There is correspondence, and there have been oral communications between representatives of the different insurance companies, and not only members of the Commission, but also counsel concerned in the enquiry, upon the subject of the questions which were addressed to the insurance companies on the 19th March. Where there has been oral communication we have endeavored to make plain, where there seemed to be any misunderstanding, the scope of the questions to which reference had been made. The communications upon the subject are accumulating in number, and the great bulk of them complain, in respect of two or three questions, that the answers to these questions will involve a very considerable delay, and we have thought it proper to submit to the Commission the terms of another circular letter, which is intended to operate as a reply to the communications which have been received, and also to obviate the necessity for communications from the other insurance companies, individual answers to which will, of course, consume a considerable time. Indeed, it has been found already that in verbal discussions a great deal

of time has been taken up which might perhaps have been better employed, and I submit to the Commission to be transmitted to the insurance companies interested in the investigation, this circular. It is to be dated to-day, and sent to-day, with the approval of the Commission:—

"Communications, both written and verbal, have been made to the Commission on behalf of some of the insurance companies to whom a circular letter was sent on the 19th March inst., accompanying a series of questions intended to facilitate the Commission's enquiry. This circular is sent to all the companies interested, and is intended as a reply to the communications received.

It is of importance that such of the questions as are capable of immediate answer, or of answer within a short time, should be answered without waiting the completion of answers to the whole series, if the latter course involves delay in any particular case.

It is also of importance that in the case of any questions the complete answers to which may be alleged in any particular case to involve delay, the company so alleging should send forward such information relevant to such questions as may be possible within a reasonable time, when the Commission will determine to what extent such information complies with the request conveyed in the question.

Counsel to the Commission is of opinion that the questions are not ambiguous nor their import doubtful."

That was in answer to a suggestion that there was perhaps a difficulty in construing some of the questions. I submit that for the approval of the Board. It is desirable we should have such answers as are readily accessible, as may be readily prepared by the insurance companies, without any delay by reason of its being supposed that the answers to other questions will take some time.

The Chairman: This circular letter will be sent to all the companies, not only the companies with whose officers you have had communication, but it will be sent to all.

Mr. Shepley: All the companies who received the former circular.

William Fitzgerald: Examination by Mr. Shepley resumed: Q.—We will turn now to the matter we were dealing with, the Madore matter. I think we had got so far that you had told me that the document appearing here in the form of a report unsigned was, as you recollected, prepared by yourself? A.—

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No, I qualified that by saying that the draft of it, I believed, was prepared by Mr. Blackadar and was revised by myself.

Q.—We are starting where we left off and I think you told me it was in the Minister's handwriting? A.—Yes.

Q.—Saying Mr. Courtney and Mr. Fitzgerald considered this, and to see Mr. Fielding? A.—Yes.

Q.—At page 190 of the proceedings you were asked "Was this prepared jointly by yourself and Mr. Courtney?" And your answer was, "No, I think it was prepared by myself?" A.—The draft of it was prepared by Mr. Blackadar and revised by myself.

Q.—You still do not think Mr. Courtney took part in the preparation? A.—I do not think he did.

Q.—Your report deals with the matter in the following language: "The work of annual inspection of insurance companies may be classified mainly under three headings: namely, first the visit to the head office of the company in Canada, as provided for in section 25 subsection 4d of the Insurance Act, for the purpose of verifying the correctness of the annual statement of the affairs of the company as returned to this department. This involves not only the verification of the correctness of the various items in the statement as obtained from the books of the company, but also an examination of the liabilities of the company, and in case of companies doing a business other than that of life insurance, the calculation of the items of reinsurance reserve." I pause there—"In the case of companies doing a business other than that of life insurance the calculation of the items of reinsurance reserve." You are not intending there, I take it, to exclude the computation of reinsurance reserve in due course, if you were excluding that as part of the duty on that visit? A.—It is a part of the duty on that visit.

Q.—And you refer to your annual report on, the subject of insurance there? A.—Yes.

Q.—"The calculation of the net value." (Reads). That is a calculation as to reserves as to which you have already told us. You divided the companies into groups, spreading the calculation over these two groups during the quinquennial period which the statute provides? A.—A certain number every year.

Q.—That is a different examination from the inspection provided for by the Act, section 25, subsection 4d, with which you deal in the first para-

graph of this report? A.—Let me understand that now.

Q.—You have classified the work of annual inspections under three headings, first the visit to the head office provided for in section 25, subsection 4d; secondly, the calculation of the reinsurance reserve, and, thirdly, which is the head we have come to, an examination in detail of the investments? A.—Yes.

Q.—That you say is for the most part done by yourself? A.—It has been up to the time that was made, at all events, the principal part.

Q.—Your report states that you took those up during the early part of the year, as time will allow, before and after the committee sessions of the House, and the remainder during the fall months? A.—Yes.

Q.—Then you refer specifically to Mr. Madore and the statement which you were dealing with. (Reads). What you think is that you are loth to believe, in the case of these three companies, the British Empire Mutual, the London & Lancashire and the Travelers' Insurance Company—you say there is only one of those three cases—that is the Travellers'—in which the chief agent of the company is a trustee, and you are loth to believe the allegations are true with regard to that trustee. (Reads). You deal there with the case of a foreign company, with its assets in the hands of trustees? A.—Yes.

Q.—Does Mr. Madore's communication deal with mortgages which form a part of the deposit, or are alleged to form part of the deposits in the hands of the Receiver-General? A.—It might be so construed, but there are no mortgages deposited by any company with the Receiver-General.

Q.—It is not the kind of security which the Receiver-General holds A.—Never has taken.

Q.—Your report proceeds, "In our examination thus far." (Reads). What do you refer to here, when you speak of your examination, after making provision for probable shrinkage? What did your examination do in respect of that? What was the custom in making your examination in respect of the securities held by trustees with regard to allowing for possible shrinkage? A.—It has been noticed throughout that the securities held by the trustees would be considerably in excess of the amount which the company was obliged to hold. allowed for shrinkage there would still be ample.

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Q.—Do you speak of that as a matter which was universal in practice with respect to the trustees for foreign companies? That is, that the securities were invariably found to be in excess of the amount which the trustees were required to have under their control? A.—Yes, I can safely say so.

Q.—Was anything done after this report, or was this the end of the Madore episode? A.—It was presented to Mr. Fielding and discussed with him, and he was shown the mortgage book, and the manner in which the returns were made and the manner in which the inspection was made. He was satisfied with it, and we never heard of it afterwards.

Q.—No addition was made to the staff of the Department in the direction indicated by Mr. Madore, I take it? A.—No, there was not.

Q.—And your method of inspection went on just as before? A.—Just as before.

Q.—No alteration in the method of inspection or in the different matters which your report answering Mr. Madore deals with? A.—No.

Mr. Shepley: There is another matter in that book, but I shall not take it up just now. I want to make a statement about it. There is a matter in that book which I shall probably desire to deal with on another branch of the inquiry. It is the correspondence and negotiation concerning legislation under which the Independent Order of Foresters carries on its operations. That I propose to leave over for the present. I shall have to take it up in another connection. Then there are some matters also embraced in that volume which I have not referred to at all, and which I do not propose to refer to, because we have enough to do to investigate the practice of the Department and companies, with companies which are still extinct. There are several companies whose affairs are discussed in that book which became extinct, and I do not propose to take up time discussing Departmental matters connected with these companies. I think we shall save time by that, and there will be no useful purpose served in going into it.

The Chairman: No.

Mr. Shepley: A matter which is quite germane to the report which we have been last reading was left and may now be completed. That is the list of the companies who have deposited securities with trustees under the Act, with the names of the respective trustees.

This list will go in as part of the record. I refer to page 94 of the proceedings, page 36 as printed. (Exhibit 41). Mr. Tilley stated that it is not necessary to file this document, because it is an official paper. I reproduce the list and put it in as part of the record. The first company mentioned is the Equitable Life Assurance Company of the United States, and the trustees are Sir Richard Cartwright, William Harty and Wallace Nesbitt, and the next company, the London & Lancashire, and the trustees are R. B. Angus and H. Stikeman, and the third is the Mutual Life Insurance Company of New York, E. S. Clueston, James Ross and Fayette Brown; the fourth, the Mutual Reserve Life Insurance Company, John Hoskin and J. W. Langmuir; the fifth is the New York Life Assurance Company, Richard White, Strachan Bethune and E. S. Clueston; the sixth is the Pelican and British Empire Life, Thomas Fyshe and Robert McD. Patterson; the seventh is the Standard Life William Ramsay and J. A. Gillespie; the eighth is the Travellers' Insurance Company, Fred W. Evans, F. F. Parkins and the Royal Trust Company.

Q.—Now I come to a matter which forms a departmental record. It has the departmental stamp of the 30th June, 1900, though the communication itself seems to be dated 6th December, 1899. It is addressed to you by Mr. Blackadar. You recognize the document, no doubt? A.—That is undoubtedly Mr. Blackadar's report.

Q.—Have you a contemporaneous recollection of the document itself? A.—I do not know that I have. I saw it a few days ago, but as having received it at that particular time, I do not recollect it.

Q.—You have not a recollection of the receipt of it? A.—No.

Q.—Could you offer an explanation, or are you able to offer an explanation of why there is the difference between the date appearing upon the document itself and the date of the stamp. There seems to have been more than six months between the date of the document and its being stamped with the stamp of the Department? A.—No, I have no idea why that would be.

Q.—You do not know why that would be at all? A.—No.

Q.—And you have no contemporaneous recollection of the document at all? A.—No.

Q.—I will read this document, because it deals with the increase in the

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work and the details of the office staff. (Reads.) Whose figures are those in pencil, the last approximation for 1900?

A.—I think they are Mr. Blackadar's.

Q.—What was Mr. McMinn's position?

A.—He was under Mr. Blackadar as actuary; he was assistant actuary.

Q.—When did he die? A.—In 1899, I believe. I think I have a memorandum that will show the exact date.

Q.—That would be during the year in which this communication seems to have been prepared by Mr. Blackadar? A.—April, 1899.

Q.—What is referred to there? The legislation of that year? A.—The legislation of 1899 changing the basis from 4 1-2 to 3 1-2; whole new tables for the valuation of policies upon that basis had to be constructed.

Q.—In the case of old business there was a periodical reduction from the then existing basis of computation to the statutory basis? A.—Yes.

Q.—Would that require the compilation of tables for the intermediate rates? A.—It will as to the four per cent. rate.

Q.—But did it involve an immediate computation upon the 3 1-2 basis? A.—It did.

Q.—When he speaks of valuation there you would understand him to refer to the valuation of the policies by way of fixing reserve? A.—That is the idea.

Q.—Have you anything before you from which you can tell me what the staff was on the 6th December, 1899? A.—There would be Mr. Blackadar, myself and Mr. O'Reilly; that is the whole staff at that time.

Q.—And Mr. Morton? A.—Yes, Mr. Morton.

Q.—And Mr. Henderson? A.—Henderson was appointed in 1892, but he had resigned. He resigned about July, 1899.

Q.—Had a successor to him been appointed in December, 1899? A.—No, there had not.

Q.—Apparently there had been two vacancies that year, Henderson and McMinn. Mr. Henderson by resignation and Mr. McMinn by death? A.—Yes.

Q.—Had either of those vacancies been filled during that year? A.—None filled in 1899.

Q.—And the staff would be yourself, Superintendent, Mr. Blackadar actuary, Mr. Morton, junior? Any more? A.—Mr. O'Reilly.

Q.—What was his position? Assistant Actuary? A.—Well, no, although he does a certain amount of actuarial work; he is engaged doing general work, a little of everything.

Q.—In addition to yourself and Mr. Blackadar, you say that in December, 1899, your staff having been reduced by two during the year, there were only two, the general man O'Reilly, and the junior, Morton? A.—That is correct at that time.

Q.—Then we appreciate the circumstances under which this letter was written; that is, the circumstances as to the staff. There is a reference to Mr. Henderson having been appointed a permanent clerk in 1892, and no reference, however, to his having resigned, and there is a reference to Mr. McMinn's death, which took place in April. There is a reference to Mr. Morton, who is said to be too valuable to continue to be a junior? A.—Yes.

Q.—And the letter winds up "I may mention that on various occasions we have received help." (Reads.) Now, there is an endorsement upon this letter, first the departmental number, 45616 1-2, these words "A. K. Blackadar, Ottawa, December 6th, 1899; received 6th blank, report on the affairs of the office of the Superintendent." You have already stated that you have no contemporaneous recollection of the document. Does its perusal bring anything to you about it? A.—I have scarcely a doubt that I saw it at the time.

Q.—There is a recapitulation of the work to be done in respect of valuing policies, a careful statement of the increase of that work from the time of you taking office, and then a statement with respect to the requirements, according to Mr. Blackadar's views, of the staff. Do you remember whether, in consequence of that report, you took any steps, saw anybody, discussed the matter with the Minister, or whether anything was done in pursuance of it, and if so, what? A.—I certainly saw the Minister on various occasions.

Q.—With respect to what? A.—With respect to the appointment of additions to the staff. As a result I find that Mr. Grant was appointed on the 1st of January, 1900. That was shortly after the time of that report. Mr. Evans was appointed on the 1st of July, 1900, and on the 15th July, 1901, Mr. Crosby was appointed. In the meantime Mr. Morton was transferred from the Insurance Office to the Finance Department.

Q.—Have you that date? A.—On the 1st May, 1901.

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Q.—Will you give me the staff that you had, so that we may have it upon the record, with these alterations made? Give me the staff you had when the alterations were complete, giving me their names. First yourself, secondly Mr. Blackadar? A.—Mr. Blackadar, Mr. O'Reilly, Mr. Morton was gone; then Mr. Grant, Mr. Evans, Mr. Crosby.

Q.—Let us turn to the report and see how that agrees with the statements that are made. Mr. Blackadar says, "I should have two men working continuously at actuarial work, whilst the routine of the office will keep two others busy." When the staff was reconstituted, were Mr. Blackadar and Mr. Grant the men engaged in actuarial work? A.—Yes. Of course, Mr. O'Reilly always at intervals helped at the actuarial work as well.

Q.—Did Mr. Grant work continuously at that work, or did he do that and other work? A.—He did other work. They would always have other work from time to time.

Q.—"We need a good man who can be trained up to actuarial work in time." A.—That would probably mean Mr. Crosby. Mr. Grant was the one we got in first, I think, and he has been thoroughly trained up to actuarial work.

Q.—That is since he went there? A.—Yes.

Q.—Probably he would answer the description, assuming this was before those who were reconstituting the Department as a basis of action? He would be the man who would answer to a good man to be trained up? A.—Yes.

Q.—Mr. O'Reilly had been in the Department for some time? A.—Yes.

Q.—And was he capable then of doing actuarial work? A.—To a certain extent he was.

Q.—But he did not occupy his whole time with it? A.—No, no one of the staff ever occupied his whole time.

Q.—Nor did Mr. Blackadar? A.—No.

Q.—Also a junior clerk; that would be Evans? A.—Evans was the first appointed in July, 1900. Then later on 15th July, 1901, Crosby was appointed.

Q.—Evans seems to have been put on to messenger in the Finance Department? A.—He was.

Q.—Is he the sort of man who would be trained up to actuarial work? A.—Not at all.

Q.—What substantial increase did

that make over the staff that you had when you became Superintendent? (Report marked Exhibit 42). A.—It gives five in addition to myself—Blackadar, O'Reilly, Grant, Evans and Crosby. When I took office in 1885 there was Blackadar, McMinn and Mr. C. R. Anderson, who was in the Department for a short while, but superannuated on the 1st of July, 1886.

Q.—He was replaced, I take it? A.—I do not know that he was really replaced. There is not anyone subsequently appointed, I would say, in Mr. Anderson's place.

Q.—It would be an increase of one in the staff from what it was at the date of your appointment? A.—That is what it is, I think.

Q.—Perhaps two? A.—Practically two, because Mr. Anderson was ill at the time and really did nothing.

Q.—Anderson was afterwards superannuated, and the place was not filled? A.—No.

Q.—You have a statement before you? Is that a statement of the alterations in the office from the time you became Superintendent? A.—There are the names and dates of appointment. The earlier part of it has reference to other matters. I had a separate list made. The only difference from that is that it had Mr. Watson, who had just been appointed. We can insert the name here.

Q.—I will insert A. D. Watson? A.—Yes. It will be number 12 there; 27th February, 1906, or 25th February, either one or the other.

Q.—Then this is a list of the various gentlemen who have been in the Department since the 1st of July, 1885, down to now, with the dates at which they were appointed, and at which they retired? A.—All contained in that list.

Q.—And we can at any time construct a staff for any period out of this list? A.—Yes. (Ex. 43.)

Q.—Still dealing with this matter, I find this document without any Departmental stamp upon it, but it takes the form of a letter from Mr. Blackadar to you of the 24th October, 1905. Do you recognize the document as a Departmental record? A.—Yes, I have no doubt I received it.

Q.—On the 24th October, 1905, Mr. Blackadar writes to Mr. Fitzgerald as follows: (Reads). That would be the group whose valuation fell due that year? A.—Yes.

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Q.—Not the whole number, but just the group which, in your method of procedure, you would have valued during 1905? A.—Yes.

Q.—First he commences with Canadian companies, and puts them in three columns, first the income of the company, and secondly the number of policies in force in 1900, and thirdly the number of policies in force on the 31st December, 1905, or, I suppose, which may be expected to be in force then, having regard to the date of his letter, 24th October. Probably that would be the statement. How would he get at that? Let us find out how that is? Would he take that from the return of the preceding year? A.—How is that?

Q.—His letter is dated 24th October, 1905; therefore there were no returns from these companies, and the number of policies in force he would not know? A.—It would be an estimate.

Q.—Based on the returns of 1904? A.—Yes.

Q.—And of course it is perhaps fair to say that everybody understood it was only approximating; it is in round figures? A.—It is in round figures.

Q.—I will read these, taking the name of each company and the second item will be the number of policies in force in 1900, and the third will be the estimated number in force on the 31st December, 1905:

Confederation Life...	22,036	28,200
Excelsior Life..	4,901	7,000
Great West..	7,963	16,300

Central Life, being a new company, there were none in 1900, and there are estimated for the 31st December, 1905, 600.

Sovereign Life was also new; estimated 800.

Union Life, also new; estimated 1,000, plus 34,000 industrial. What does that mean? A.—That company issues two classes of policies, the ordinary policy, and what is known as an industrial policy; small sums, where the collections are made weekly—generally weekly.

Q.—Would those policies require a computation of reserve also? A.—Yes. It would require a computation; they were grouped. They would not take every single policy; they were grouped.

Q.—Perhaps it would be quite in order, just at this point, to explain—because there may not be a distinct understanding about that—just what is an industrial policy? Just define an industrial policy, so that we may understand it? A.—Well, it does not differ from

the ordinary policy, except in the amount and in the manner in which the premiums are collected.

Q.—First, about the amounts? A.—They rarely run above \$200.

Q.—Are they smaller than \$200 sometimes? A.—Oh, I think they are.

Q.—A hundred? A.—I should think so.

Q.—Fifty? A.—They might go as low as that, I think, but I would not like to speak of that.

Q.—Then, about the collections of premiums? A.—The premiums are collected as a rule weekly. An agent has a certain number of policies upon his list, and he goes around from week to week to get the five cents from door to door, or ten cents, as it may be.

Q.—It is the poor people, the working classes, who are insuring in the industrial policies? A.—Yes.

Q.—Why are they called industrial? Because they are in force in the industrial classes? A.—I do not know the reason; it is some such reason.

Q.—That gives the total, so far as Canadian companies are concerned, policies in force in 1900, 36,523, and estimated to be in force on the 31st December, 1905, 58,050, plus 34,000 industrial. This next gives a list of Canadian policies of foreign companies. The first in that list is the

Equitable Life.....	9,503	13,600
New York Life.....	15,433	28,000
Union Mutual..	3,863	5,000
Liverpool, London &		
Globe..	119	100
Commercial Union....	243	230

The State Life, which was new, nothing, and 400. That gives a total as to the foreign companies of Canadian policies 29,261 in 1900, 45,730 in 1905, or a grand total, taking both Canadian and foreign policies, of 65,784, 103,780, plus 34,000 industrial, estimated for the 31st December, 1905. Then Mr. Blackadar proceeds. (Reads.) It was just about five years before that that Mr. Blackadar made his recommendations that we have just dealt with? A.—Yes.

Q.—Then on the 24th October two new men were suggested as a necessity, in view of the growth of the business of the office, one to be capable of taking up actuarial work and learning it, and the other to be a junior, who would just do the usual junior work, and would be so much the better if he were capable of fitting himself as an actuary. (Report Ex. 44.) What was done in consequence of that? A.—You mean the immediate consequence of it?

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Q.—Yes. In the first place, what did you do with it? A.—From time to time I notified the Minister regarding the appointment, and the Minister was endeavoring to get us such a man as we required, one or two, one certainly that I know of.

Q.—Who was that? A.—He was not appointed; he was not deemed as suitable, and therefore I might be excused from mentioning his name.

Q.—Unless anything came of it, I do not want it? A.—Nothing came of it. He was not thought to be such a man as would fill the place, and so he was not appointed. The results which have followed is the appointment of Mr. Watson, which we did not get in November, but we got on the 27th February, and a couple of days ago I was in receipt of a letter from Mr. Fielding saying another one will be appointed immediately. However, he is not appointed yet.

Q.—Which of the two classes that Mr. Blackadar's letter speaks of is Mr. Watson? A.—He is a man of considerable mathematical knowledge, who will be in a position to assist in the actuarial work, who will make that work a specialty.

Q.—You have had him there long enough to know something of his qualifications. When the new man arrives you will have a staff of the dimensions Mr. Blackadar's letter speaks of? A.—We will have the staff.

Q.—I want your opinion as the head of that Department, as to whether or not that staff will be efficient and sufficient for the purposes of the work with which you have to cope under the Act? A.—I think the staff will still not be sufficient.

Q.—I want your best opinion upon what is necessary to make that staff an efficient and sufficient staff for your purposes? A.—Might I be permitted to put that in writing later?

Q.—Yes, I want a considered answer, not an offhand answer, which will give us the best of your opinion upon that subject? A.—I will put it in later.

Q.—Now, I propose to take up an entirely different subject; with respect to the legislation of 1899, you have already told us, and we have seen from the Act itself what the requirements of the Act were with respect to a new method of computing reserve? A.—Yes.

Q.—I propose to ask you next to deal with and produce to us the correspondence relating to the alterations so made

in the law. In the first place, who conceived, where did the idea spring from, that the reserves should be put upon a footing involving a lower rate of interest? Was that your idea? Did that emanate from you as Insurance Superintendent? A.—My belief is that it did, although it may have been mentioned previously to the time that I took it up. It may have been mentioned by various companies, but so far as initiatory proceedings are concerned, they were commended by myself.

Q.—Before we approach the correspondence, I want you to state what were the questions involved in the proposed alteration of the law, stating them from both standpoints, stating them pro and con, what were the advantages which were claimed to be derived from this alteration in the law, and the necessity? A.—Well, the necessity for it appeared to be this: the rate of interest had been decreasing, and at the time the subject was taken up it was probably about at its lowest, the rate of interest.

Q.—You mean the rate of interest actually obtainable upon investments? A.—Yes, it was decreasing. As you understand under the old Insurance Act 4 1-2 per cent. was the basis, and of all things it was absolutely essential that there should be certainty for the payment of the claims when they matured. With the rate of interest going down, it was not by any means certain that that would be the case. All the funds were supposed under the Act as it stood to produce a four and a half per cent. rate of interest. It was not clear that that could be maintained. That was the reason why—

Q.—That was the necessity? A.—That was the necessity.

Q.—That was the argument founded upon necessity—we do not want to speak of absolute necessity yet—that was the argument founded upon necessity that, inasmuch as the rate of interest procurable upon investments had fallen below the rate on which the reserves were computed, you were in danger of not securing policyholders by the maintenance of reserve? A.—Yes.

Q.—Was there any other, or was that the main and substantial argument at that time? A.—For a change at that time.

Q.—And against it? A.—There was no dispute or no question at all as to the desirability as far as new business was concerned.

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Q.—Everybody agreed in that? A.—Everybody concurred.

Q.—You do not think there was any dissension? A.—No, not as far as I remember.

Q.—You mean among insurance people? A.—Among insurance people for the change, as far as that was concerned, but there was a diversity of opinion with regard to the old business, the business then in force, and with a view of ascertaining just what the views of the insurance people were I sent a circular letter out to every company doing business and had their answers.

Q.—Had you legislation in view when you sent that circular letter? A.—I had.

Q.—And what was the object of the circular letter? A.—Well, the object of the circular letter was to see what the views of the insurance companies were upon the subject.

Q.—Would it be right to say that it was to arm yourself with information and education, which would enable you to deal satisfactorily with the legislation? A.—It would be entirely correct to say that.

Q.—I think I have here a copy of that circular letter. I will show it to you and ask you whether it is a copy? A.—That is a copy of it.

Q.—This happens to be the one addressed to Mr. Macaulay of the Sun Life? A.—Yes.

Q.—The others were in identical terms? A.—In the same words.

Q.—This is dated 6th December, 1898, and addressed to Mr. T. B. Macaulay, Sun Life Insurance Company, Montreal. (Letter read). I have two bundles here, one is the correspondence with the Sun Life following that circular, and the other seems to be the correspondence with other insurance companies, or the letters and communications received from other insurance companies? A.—Yes, it was divided into two sections.

Q.—You made the division in two sections, not I? A.—I think it was really at your request.

Q.—I am not repudiating it at all. There is a reason for that, is there? Was there a difference between the attitude of the Sun Life, and, generally speaking, the attitude of the other companies? A.—There was.

Q.—What was that? State it, so that it may be in the minds of the Commissioners as we go on with the correspondence. A.—The difference was to

the time that the change of basis of reserve should go into force as regards old policies. I think Mr. Macaulay, if I remember right, agreed that as to new business it was all right, that the change should take effect at once, but as to the old business there was a difference of opinion. I think Mr. Macaulay is the only one that held out to the end, that the old business—well, not exactly that there should be no change, but that the change should not be so great as it was made by the Act. Possibly I might even qualify that, because when the bill was first drawn the intention was—the first draft of the bill would have put all the policies on a 3 1-2 per cent. basis in 1907. Mr. Macaulay thought that was entirely too short a date; in fact I believe he held the view that as to the business in force at the time the Act went on the statute book that there was no necessity to make any change, and he vigorously opposed it in the committee, and there is where the fight took place, the Banking and Commerce Committee, and I think as the result of his protest an alteration was made from 12 to 15 years; that is, not to come finally into force until 1915 instead of 1912.

Q.—You have had the advantage of being contemporaneous yourself with this correspondence, and a contemporary in respect of the discussion of this matter with Mr. Macaulay? A.—Yes.

Q.—And I suppose it is not doing Mr. Macaulay less than justice if we say that that side of the question is presented just as fully in this correspondence as it could have been presented? A.—I think so; I think it is.

Q.—The first letter from Mr. T. B. Macaulay, the secretary of the company, in reply to your circular, is dated 3th December, 1898. I think it of very great importance, that I should go through this, because it is a question of very great importance which will have to be considered by the Board. (Letter read.) Then comes a full letter, 20th December, 1898. "And all negative values excluded." What does negative values mean? Are you able to translate that for us? A.—At the moment I was not following it.

Q.—"In Great Britain, although no formal test of solvency has been laid down by the law"—(Reads). A.—It is a system with which I am not familiar, and I cannot explain it.

Q.—I think we will deal with his next letter before reviewing his views. That letter appears to have been received on

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the 21st December, and then you received another letter dated December 24th. (Letter read.) Who was Mr. McCabe? A.—Manager of the North American Life.

Q.—Now, reading the first letter in the light of the second, the central principle seems to be—let me see if I can put it in a nutshell—the central principle seems to be this: we object to the change in the rate of interest in calculating reserves, because it fixes a hard and fast test of public solvency? A.—That seems to be it.

Q.—“We have no objection to your saying that that shall be the minimum test of solvency, leaving the companies to increase their reserves by adopting a lower rate of interest by means of legitimate competition among themselves? A.—Yes.

Q.—That seems to have been the central feature of that idea? A.—That is as I understand it.

Q.—I do not see in that letter any suggestion with respect to any possible sacrifice of the interests of policyholders by an alteration in the rate of interest upon reserve? A.—I do not think there is in that letter.

Q.—Did that subject enter into the negotiations subsequently? A.—I think it did later on.

Q.—I think that is a sufficient summation for present purposes of the attitude of the Sun Life in the first instance. Then the next letter is 15th May, 1899. Can you remember whether the bill was then under discussion? A.—I do not remember the date it was introduced, but it probably would be. I think likely it would have been introduced anyway.

Q.—You had drawn the bill substantially as it is now? A.—No—a very material alteration.

Q.—What was the bill as you introduced it? A.—The bill as I introduced it put all new business on 3 1-2 per cent. basis, and the existing business upon a 3 1-2 per cent. basis in seven years; that is after the 1st of January, 1897.

Q.—That is all existing business? A.—Yes.

Q.—Is it possible for you, without too much trouble, to find the draft of the bill as introduced? A.—I shall be able to find that. I will get the draft of the bill.

Q.—You have already made a note about the preparation of a memorandum showing the staff, and I am obliged to Mr. Lebeuf for suggesting that the memorandum should also assign your

opinion as to the office duties of each member of the staff, which you would suggest? A.—Yes.

Q.—Your bill as introduced—and we will have a copy of that as part of the record—provided for all new business made to secure reserve calculated on a 3 1-2 per cent. basis? A.—Yes.

Q.—With respect to the old business you gave the company seven years to bring that to the 3 1-2 basis? A.—Yes. Of course I might mention the fact that a bill seldom, if ever, goes through in the manner in which it is drafted. It was put in that form for the purpose of bringing the subject up for discussion.

Q.—On the 15th May we have a letter from Mr. Macaulay to the Minister, Mr. Fielding, which found its way to your department, 23rd May, according to the departmental stamp. “Dear Sir: In accordance with your suggestion to Mr. Gemmill”—what is that reference? Was he acting for the company in the discussion of the bill? A.—It is possible that Mr. J. A. Gemmill, who did a good deal of parliamentary work, may have been retained by Mr. Macaulay to watch the bill in its proceeding through the House. I do not remember the fact.

Q.—Apparently a deputation had waited upon Mr. Fielding the week before this letter was written? A.—There were several deputations.

Q.—He explains why they were not represented upon it. (Letter read.) This is apparently the memorandum which accompanied the letter. It bears the departmental stamp of the same date and it is headed “Memorandum submitted for the consideration of the Honorable the Minister of Finance by the Sun Life Assurance Company of Canada. Then there is a document here which is in print, and is said to be from the Insurance Monitor, and those are from Mr. Walter S. Nichols, but I do not find among these papers the article in the Montreal Witness of which this letter speaks. What is this red ink memorandum attached to the Sun Life Company’s memorandum? Is that made in the Department, or is that part of the memorandum submitted? A.—That would be a part of the memorandum submitted. It certainly was not made in my office.

Q.—That short memo. reads as follows—(Reads memo.) That is the 23rd May, 1899, and the printed memorandum is stamped the 25th May, 1899, and Mr. Macaulay initials this memorandum on the margin. (Reads.) That then seems to be a matter which was also put be-

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fore the Minister. Are you able to say whether that accompanied the memorandum? A.—I have no recollection on the subject, but if it bears the same date I have no doubt it was.

Q.—Oh, I see this is explained by a letter of the 17th May, bearing stamp the 25th May, and the printed memorandum which I am referring to also has the Sun Life stamp on it. This is a letter to Mr. Fielding. (Letter read.) Those communications speak for themselves, and I am only going to ask one question: were you from time to time, I won't say in charge of the legislation that was being proposed, but were you keeping in touch with it and consulted with regard to it from time to time by the Minister? A.—I was.

Q.—Did you in the course of your discussions with the bill familiarize yourself with all these considerations which are urged in the memorandum and correspondence to which I have referred? A.—Fairly so. There were other communications from others. This last editorial advises Parliament to examine the devices of officers of the other companies, and you will find the officers of other companies are entirely on the other side.

Q.—This memorandum which I see next is on the paper of the Sun Life. There is nothing, I think, in the correspondence to explain it; I think that is so: nothing to explain where it came from or what it is, but it is on the paper of the Sun Life. I want to see if you can recollect about that. That seems to be the draft clause for the bill. I was not able to find anything explanatory of the production of that, or its origin in the other papers? A.—I should think that was a memo. of a draft clause proposed by Mr. Macaulay.

Q.—That is your opinion? A.—That is my belief.

Q.—The difficulty about that is that as to new business after the 1st of January, 1900, it puts the valuation on the rate of 3 1-2 per cent., and so far as we have seen hitherto, nobody acting for the Sun Life had acceded to that; they had been maintaining four per cent. This is the clause; you can remember the appropriate place in the bill for that? A.—Subsection 10 of section 25.

Mr. Hellmuth: That is the 1899 Act? A.—Yes.

Mr. Shepley: Q.—In the Act of 1899, section 5, and it comes after the provision about your making the valuation once in every five years, and in the

same clause "And such valuation shall, as to policies issued prior to the first day of January, 1890"—A.—This is 1900 in the Act that is passed. The idea of that was to put the date back ten years.

Q.—"And profits accrued or declared in respect thereof to be based on the mortality table of the Institute of Actuaries of Great Britain, at the rate of 4 1-2 per cent. per annum." You have it 3 1-2? A.—Yes.

Q.—"And as to policies issued"—(Reads clause). That seems to provide—and we can compare it afterwards—that you shall not affect at all any policies issued prior to the 1st of January, 1890? A.—Yes, I think that was the intention.

Q.—That with respect to ten years of insurance between 1890 and 1900 you shall keep up the 4 1-2 per cent. for ten years? A.—I should rather think it is to 1907; that would be 17 years.

Q.—For seven years from the time the bill was passed? A.—Yes.

Q.—Seven years after the legislation you were still to maintain the 4 1-2 per cent., and then go down only to four? A.—Yes.

Q.—And in respect of all policies new after the 1st of January it dropped at once to 3 1-2? A.—Yes.

Q.—That seems to be the proposal in this? A.—Yes.

Q.—That was followed by a letter to you of the 7th May, 1899, which bears the departmental stamp of the 29th May, 1899, "As promised, I have pleasure in giving you the particulars as to the amount of our business which was issued before the 1st of January, 1890"; that would be apparently a letter explaining and defining the quantum of business to which these provisions would apply? A.—Yes.

Q.—The latter part of the letter refers to the other subject? A.—Yes, that is the other investment. (Letter read.)

(Adjourned till 2 p.m.)

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AFTERNOON SESSION.

Mr. Shepley: The correspondence with the Sun Life will come in as one exhibit (No. 45).

Examination of Mr. Fitzgerald continued:

Q.—I am not going to interpolate anything in the present examination with regard to this bill. I shall come back to it. This is the draft bill of 1899. In order that it may not be over-

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looked, I asked Mr. Fitzgerald to get that for us. (Exhibit 46.)

The next in point of date is a letter of the 31st of May from Mr. T. B. Macaulay to yourself bearing the departmental stamp of the 5th of June. (Reads first sentence of this letter.) Would that be the change of which a memorandum was submitted? A.—It is very likely.

Q.—And the change referred to in the letter, referring to that draft? A.—Yes, that is very likely.

Q.—(Reads on to end of this letter.) On the 3rd of June a letter of Mr. J. R. Dougall, written from the Witness office in Montreal, a lengthy letter bearing the departmental stamp of the 8th of June. He refers in this to a Sun Life delegation which had waited upon the Minister. Have you a recollection of that? A.—I have not. I do not recall a Sun Life delegation.

Q.—There was an indication in one of Mr. Macaulay's letters? A.—Getting an appointment for it, I remember that.

Q.—There was no indication in the last letter of the 31st of May, but apparently there had been either before or after the 31st of May such a delegation? A.—When I come to think now, I do remember Mr. Robertson Macaulay, the president, being in Ottawa.

Q.—Do you remember Mr. Dougall being here? A.—I do not. I don't know Mr. Dougall personally. I might have seen him and not known who it was, but I do remember the president.

Q.—His letter begins, "Dear Mr. Fielding" (reads to "what I had been asked to say.") That would indicate that he had been primed to make a speech upon the occasion, but had desisted because of the patience with which Mr. Fielding had listened to the others. A.—Possibly so.

Q.—That does not recall it. A.—No.

Q.—Would you be present at such an interview? A.—Not necessarily.

Q.—But as a matter of ordinary routine? A.—Usually I have been present, and, while I remember distinctly Mr. Robertson Macaulay, I have no recollection of Mr. Dougall, possibly for the reason, I say, that I don't know him.

Q.—(Reads to end of this letter. That letter was dated the 3rd of June. On the 5th of June Mr. Macaulay writes you again. (Reads from the beginning to "guaranteed stocks.") That is about

the other matter. I will not trouble with that. That part of that letter ought to find its way into the other correspondence on the subject of the increased power of investment. Will you make a note of that, please? It ought to be, if necessary, receipted and put into that exhibit. Then I come to the part which is important here. (Reads from "I see by the papers that some of the Toronto managers" to "its management may have special reasons for the course they are taking." That seems to be the end of that correspondence. Before dealing with the other correspondence and with what resulted afterwards, let me refer to this draft bill. The bill as drawn is shown here. Then there are some amendments made? A.—Made by the Sun.

Q.—By scoring out with black ink, and there is apparently one amendment made by a red ink interlineation in each place where the language had to be modified. I pass over the provision requiring you to put a value every five years upon a policy and proceed with the part that was being so much discussed. (Reads from "And such valuation shall until the first day of January, 1907," to "on a rate of interest of 4 1-2 per cent. per annum.") That would be the first day of January, 1906? That would be new business? A.—Yes.

Q.—(Reads on to "in respect thereof.") That is the way you had drawn it? A.—Yes.

Q.—With the black ink alterations, you suggest that that is not the Sun Life emendation? A.—That is the Sun Life emendation. I think the endorsement will show upon the back of it, or front of it, that it was submitted to the Sun Life.

Q.—"Amended to show the suggestions submitted for the consideration of the Hon. the Minister of Finance, by the Sun Life Assurance Company of Canada"? A.—There was another subsequently.

Q.—This does not at all, with the black ink emendation, fix a date ten years back for the commencement? A.—No.

Q.—(Reads from "With these emendations such valuations shall" to "be based on a rate." I omit the immaterial parts, "of 4 1-2 per cent. per annum" to "4 per cent." That would be in accordance with their suggestion that old policies should not be affected at all and that new policies should only be

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affected by the 1-2 per cent. ? A.—Yes.

Q.—The 4 per cent. being inserted with the red ink emendation. Then the provisions substituted for section 35 by section 4 of this Act apparently quite agree with those emendations? A.—It is just following out the same amendment.

Q.—With that at hand, we can compare the bill through its stages to the Act as passed. Then the last letter written to you suggests a fight before the committee. Have you a memory of that field of battle? A.—I have quite a distinct recollection of it.

Q.—And can you recall the forces engaged and how they were ranged? A.—The forces were as I recollect it pretty nearly all on one side, with the exception of the Sun. They appear to have stood pretty well alone upon the one side, and all the other companies apparently on the other side. I must say, however, that opposition came to the bill as it now stands from some policyholders. I remember distinctly Col. Tisdale, who was a policyholder, and as a policyholder and a member of the committee.

Q.—Was he a member of the committee? A.—Yes.

Q.—That is the committee on banking and finance? A.—Banking and commerce. It was also opposed to a certain extent by Mr. Foster, representing possibly the ideas of some of the companies. It lasted two days, two sessions; and Mr. Macaulay, senior and junior, both spoke at very considerable length upon it.

Q.—Who was the chairman of the committee? A.—I cannot recall that, but I can ascertain. I don't remember who was chairman. There have been several changes.

Q.—The committee on banking and commerce, that was in 1899? A.—Yes, I can ascertain that.

Q.—There was then an engagement lasting for two days, with the forces marshalled on both sides, and the views of all fully expressed? A.—Very fully expressed.

Q.—Are you able to say from your observation of the contest and of the deliberations which followed and completed the victory of the one side over the other, if it can be so called, can you remember the considerations which were given weight to by the committee itself in reporting the bill in its final shape? A.—It is almost impossible

to tell what is operating in the mind of any particular committee man and which influences his vote. I think it is probably impossible to gauge anything of that kind, but the argument presented by the Minister of Finance and which appeared to be listened to with attention was this: that the important thing and the all-important thing was that the guarantee should be secure when the policy became a claim; that the matter of profits in the meantime was of little consideration with the main thing, and the only thing to be looked at was the security for the policy when it became payable.

Q.—That the apportionment of profits in the interim was a matter of minor consideration? A.—Of minor importance altogether.

Q.—Having regard to the importance of making the claim, when it became a death claim, absolutely secure? A.—That is the idea.

Q.—By the maintenance of a reserve calculated upon current rates of interest? A.—Exactly, so that there should be no doubt as to its payment; that was the important point.

Q.—Were the arguments from the standpoint of the policyholder pressed and weighed according to your recollection of the contest that then took place? A.—With regard to profits?

Q.—Yes. A.—They were undoubtedly.

Q.—With regard to the absorption of moneys which might otherwise be set aside as a surplus to go to his profits for the purpose of building up a reserve not only for his policies, but for policies which did not share in the profits? A.—Undoubtedly they were; that was one point that Col. Tisdale pressed very strongly.

Q.—Having said so much as that with regard to the history of that legislation, let us go briefly through the correspondence. This is not secured together and I shall ask to have someone do that. This has been arranged pretty well in chronological order from the other standpoint? A.—Yes.

Q.—There is an index here showing what papers are embraced in it. The title page has a computation which has not anything to do with this? A.—No, nothing whatever.

Q.—This is just a piece of paper taken up to make a cover? A.—Yes.

Q.—Now the first letter is from the Confederation Life. "In reply to your circular letter of 6th December, 1898." Your circular letter, as you have told

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us, was of the same tenor and effect to all the companies? A.—Yes.

Q.—And Mr. Macdonald, managing director of the Confederation Life, wrote you on the 7th of December as follows: (Reads to "I am convinced that 4 would be a safe rate.") I think this next document has no place here; a letter of the 7th of December from Mr. Macaulay to Mr. Ramsay of the Canada Life on the question of the powers of investment. I will ask the secretary to put this in the other exhibit on the question of the extension of the powers of investment. Now there is a letter also from Mr. Macaulay, who seems to be conducting his campaign by communicating his views to others. A letter of the 8th of December from Mr. Macaulay to Henry Sutherland, the manager of the Temperance & General Life Insurance Company, Toronto. A.—Mr. Sutherland was, I think, the secretary of the Life Officers or Life Managers' Association.

Q.—I think I must relegate that letter, Mr. Fitzgerald, to the other exhibit. Then a letter from Mr. Dexter, the managing director of the Federal, of the 8th of December, writing from Hamilton to Mr. Fitzgerald. (Reads from "Replying to your favor of the 6th inst." to "an amendment to the Act.") Do you know what he refers to by "the movement among the companies in that direction." Some of the companies, I gather from the correspondence we have already read, had already themselves decreased the rate of interest upon which their reserve was computed? A.—Yes, I think probably that is what he refers to. I have no information except what is contained in the letter.

Q.—(Reads from paragraph "13" to "However, this is not the case.") On the 20th he writes you again. (Reads from "Re proposed change in the standard" to "provide a considerable margin of loading for contingencies.") Then we have a letter from Mr. Macaulay to Mr. Ramsay of the Canada Life, of the 9th of December, '98. (Reads from "We are this morning in receipt of a letter from Mr. Fitzgerald" to "although no formal test of solvency is laid down.") I do not think I need read this; I do not think there is anything in this, except the earlier part of it, which is not also set out in the former letter to you. He winds up. (Reads from "I have written to you fully on the subject" to "in the mean-

time we will not reply to the Department.") Then a letter from Mr. J. G. Richter, manager of the London Life, dated London, 9th December, to Mr. Fitzgerald. (Reads from "Re reserve standard" to "as would be the case on the mortality standard.") The Dominion, from Waterloo; Thomas Hilliard, the managing director, writes on the 9th of December to Mr. Fitzgerald. (Reads from "Replying to your favor of the 7th inst." to "hope in a year or two to place the old business on the same footing.") Then the Canada Life on the 9th of December writes, Mr. Ramsay, the president, signing the letter. (Reads from "I am in receipt of your favor of the 6th" to end of letter.) Then a letter from Mr. David Burke of the Royal Victoria, Montreal, 10th December. (Reads from "I beg to acknowledge receipt of your letter of the 6th" to "in favor of a more conservative basis of interest." Then J. H. Brock of the Great West Life Insurance Company writes from Winnipeg on the 10th of December. (Reads from "In reply to your letter of the 7th" to "than the experience of British companies.") The Northern Life, Mr. Milne, the manager, writes from London on the 12th of December. (Reads from "Yours of the 11th came duly to hand," to "four per cent.")

The Imperial Life, F. G. Cox, Managing Director, wrote on the 15th of December to Mr. Fitzgerald. Reads from "Your esteemed favor of the 7th," to "higher rate of interest than 3 1-2 per cent."

The North American Life: Mr. McCabe on the 22nd of December writes to Mr. Fitzgerald. (Reads from "Answering yours of the 7th inst," to end.)

Then there is a memorandum giving the names of several of the well-established and successful British life companies. (Reads memorandum referring to mortality tables in use.) Then there is the list of English companies bearing out in detail what he says in bulk, that three and 2 1-2 per cent. are the amounts which the reserves are calculated and that the rate of interest varies about 1 per cent. over that and in one case 2 per cent., as to which he says (Reads from "The true interest was slightly over 4 per cent." to end of paragraph.)

Then the Ontario Mutual, Waterloo: December 23rd, Mr. Wagenast, the manager, writes to Mr. Fitzgerald. (Reads from "Replying to your letter of the 6th," to end.)

Then a letter to Mr. Blackadar of the 16th of January, 1899, from F. Sander-

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son, on the Canada Life Assurance Company's office paper. (Reads the whole of the letter.)

The Manufacturers': Mr. Judkin on the 4th of February '99 writes to Mr. Fitzgerald: "Referring further to your favor of the 7th of December." Was there an earlier letter do you remember? A.—There has not been any other read; I do not know whether there is a nother.

Q.—(Reads from "I may say that I would have written sooner," to "We doubt the wisdom." Does he mean correspondence with you? A.—No, with their actuary.

Q.—(Reads from "We doubt the wisdom of any stringent legislation," to "in cases where companies are unable to comply with legal requirements.")

Canada Life again: Mr. Sanderson the 24th of March to Mr. Fitzgerald. (Reads this letter.)

Then we get into May. Mr. Sutherland asks for a meeting of a deputation of the managers of Canadian life assurance companies on the 12th, 13th, 15th or 16th. This is a telegram to Mr. Fielding. Then the reply is on the back, "Please state what is the business on which the deputation is coming."

On the 9th of May, "Managers want slight change in basis of valuation and wider privileges for investment. Could you meet us on Friday afternoon as well as earlier."

The answer to that does not seem to be here, but it is indicated by the reply that comes from Mr. Sutherland: "The deputation have not put their business in writing as yet; will do so and be with you on Friday. Kindly fix hour for meeting." Do you remember that meeting? A.—I remember there was a meeting, my recollection being that Mr. J. K. Macdonald of the Confederation Life was the spokesman.

Q.—Do you remember what took place at that meeting, what was the nature of the discussion was, and over what territory the discussion ranged? A.—I am not certain whether that particular one referred to investments as well as to the rate of interest.

Q.—Apparently it did by what is foreshadowed in the telegram. A.—I think it did. Mr. Macdonald represented the Life Managers Association and they appeared to have come to an agreement as to what should be recommended to the Government, and Mr. Macdonald, being spokesman, presented their view.

Q.—In respect to this question of the rate of interest upon which reserves are to be computed, do you remember what the views of the deputation expressed by Mr. Macdonald were? A.—That as to new business it should be upon a three

and one-half per cent. basis, and as to old business it should eventually come to a three and one-half per cent. basis, but I am not very certain now as to the date at which they recommended that it should come. Subsequently, however, a memorandum was filed in the Department, signed, I think, by all the managers, and it is amongst the papers.

Q.—The next in order of date is the 16th of May, '99, a letter from Mr. Jeffries? A.—He is of the London Life.

Q.—Yes, he apparently writes on behalf of the London Life. (Reads from "Re bill No. 86," to "section 50.") What is the investment. What is the petition he speaks of? A.—It is this paper I think here in the blue cover. I think that is the one he refers to.

Q.—Yes, that is a petition, signed. That does not bear the stamp until the 7th of June, so that we have not come to it chronologically, but that is the petition referred to here and we will come to it in its order. Then after dealing with the question of power of investment (Reads from "after consultation here I find that my company," to end of letter.) Then there is something added to that. (Reads from "I would also call attention to the wording," to "new experience table in course of preparation.")

Then a letter from Mr. Ramsay, Canada Life, of the 23rd of May to Mr. Fitzgerald. (Reads from "I understand that a deputation of Life Insurance Managers," to end.) The enclosure is a resolution passed by the Association of Life Managers. (Reads this enclosure)

Then on the 23rd of May Mr. Sutherland writes: "I had a copy of the enclosed resolution with me when in Ottawa." (Reads to end.) That is the same resolution that we have just read.

Mr. Junkin, on the 25th of May to Mr. Fitzgerald. (Reads from the beginning of this letter to "1910.") I suppose that means that he feels satisfied with that. (Reads to end.)

The Temperance and General, Mr. Sutherland, 26th May, 1899, to Mr. Fitzgerald. (Reads this letter.)

Then Mr. McCabe of the North American Life, on the 27th of May. (Reads from "as I am likely to be out of the country," to "with the suggested amendments.")

Then Mr. McCabe again on the 27th of May; (Reads from "Mr. Blackadar, who is in the office as I dictate this" to "3 1-2 per cent.") That looks like Mr. Macaulay? A.—That is Mr. Macaulay's proposition.

Q.—(Reads from "In my opinion it would be a serious error" to end.)

A telegram of the 30th of May from

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Mr. McCabe to Mr. Fitzgerald: "Could you meet Messrs. Ramsay, Sanderson, Bradshaw and myself Thursday morning and arrange interview with Finance Minister same day. Also separate interviews for us with Sir Richard Cartwright and Sir Louis Davies." "Will see to-morrow what arrangement can be made for interview with Ministers, and will wire you then." What happened as to that? A.—There is a memorandum here.

Q.—"At 12.30." Is that Mr. Cartwright's initials? A.—Yes, that is the appointment with them.

Q.—Then what about Mr. Fielding? A.—It appears that the answer has not not been carried in. No doubt an arrangement was made.

Q.—At all events there was a meeting arranged? A.—Yes.

Q.—And they came? A.—I have no doubt.

Q.—Do you remember that meeting? A.—Not specifically, except that I know that I was at each meeting that took place.

Q.—This was a meeting at which Mr. Ramsay, Mr. McCabe, Mr. Bradshaw and Mr. Sanderson were expected to be present and there was an interview with the Finance Minister to take place and a separate interview with the other two Ministers. I want your recollection of both the interviews as nearly as you can recall them? A.—I have really no recollection of any interview when Mr. Ramsay was present.

Q.—Do you remember when the others were here? A.—One day I remember an interview with Sir Richard Cartwright and Sir Louis Davies. I don't think I was present at that interview.

Q.—Can you place your finger upon the interview with the Finance Minister when this deputation came? A.—Not if Mr. Ramsay was a member of it. I have no recollection of an interview when Mr. Ramsay was present.

Q.—Do you remember the others, McCabe, Bradshaw and Sanderson? A.—Yes, more than once I think I remember Mr. McCabe, Mr. Bradshaw, and, I believe, Mr. Sanderson; yes, together.

Q.—I see a letter here from Mr. McCabe and I do not see any reference in it to any interview, but I see a reference to another visit to Ottawa when the Insurance Bill is fixed for discussion in committee. At all events, you do not recall it? A.—I do not recall the particular interviews.

Q.—Do you think that by taking time and considering and by looking at any

of your records you could bring to your memory this meeting? A.—I think I can probably find any letter or telegram making the appointment.

Q.—I am not so much concerned with that as I am with whether or not you will be able to give us an account of the interview itself? A.—That is barely possible, but still I would not say that it is very probable. These interviews were frequent in one form or another.

Q.—A letter from Mr. McCabe of the North American Life, dated June 6th, 1899. (Reads from "I beg to acknowledge with thanks the receipt of yours of the 5th" to end.) Then the "Separate letter herewith," "enclosed, petition of all Canadian companies." Now we will take the petition dated the 1st of June, and bearing the departmental stamp of 7th June. It is addressed to you. (Reads from "Whereas" to "three years.") A.—The bill was reprinted subsequently with the modification proposed by the petition.

Q.—Does that modification appear in the bill? "Subsection 2, section 2, clause 6." "Where it appears that the liabilities, including the full reserve calculated as above, exceed the assets." reads to "limited time not exceeding one year." The suggestion made in the petition is that it should be a term not exceeding three years. A.—That is the suggestion that was adopted, and is in the Act as it now stands.

Q.—That is signed on behalf of the Manufacturers, the Excelsior, the Temperance & General, the Confederation, the Great West, the North American, the Imperial, the Federal, Canada Life, London Life, Northern Life, Ontario Mutual, Dominion Life. That seems to be all.

Then Mr. Burke of the Royal Victoria, on the 9th of June, writes: "I have just received a copy of the Government bill to amend the Insurance Act," reads to "in cases where the circumstances would warrant."

Then a letter of the 9th of June from the manager of the Federal Life to Mr. Fitzgerald. (Reads from "referring to the petition" to "which has been or will be forwarded to you.")

Mr. Richter, 12th June, London Life. (Reads from "I beg to acknowledge receipt of copy of Bill No. 88" to "we have therefore no objection to the bill as proposed to be amended.")

The Mutual Reserve on the 16th of June, Mr. W. J. Murray to Mr. Fielding. (Reads from "I have read with a great deal of interest" to "wrecks the institutions it was proposed to protect.")

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The rest is personal compliment that we need not bother about.

Here is a memorandum which has no signature, but I find it among these papers, the first part of it being directed to investment powers and the last part of it to reserve standard. Can you explain that, where it came from? A.—The London Life signed it.

Q.—Oh, it is signed after the table. I thought I had got to the end of it. That is a memorandum on behalf of the London Life. I will just ask for these memorandums, but I will not read them to-day, as our time is about up. I would like the part as to investments recopied and included in the other exhibit. Can you identify this memorandum? A.—I do not recognize this. There is nothing upon it to identify it.

Q.—It is apparently something which was before the Department or intended to be put before the committee in the discussion of the amendments to the bill? A.—Yes.

Q.—Then this is one which has some handwriting in pencil which perhaps you may recognize; "Mr. Fitzgerald" written at the top? A.—That is probably written by the Minister's direction, but it is not his writing.

Q.—The next document is some pages long and looks like a speech? A.—Yes, that was probably made use of in the committee room.

Q.—That perhaps we will want to look at in the morning. This last is headed "Jottings regarding the Insurance Bill"; and another "Policyholders' profits to be sacrificed" and "Insurance Insolvency Law." The documents themselves look upon the line of the Sun Life argument. You do not find anything to identify it? A.—I do not.

Q.—Except the Minister's handwriting, "Mr. Fitzgerald"? A.—Yes.

Q.—That is Mr. Fielding's handwriting? A.—Yes.

The Chairman: It is literature prepared by the companies? A.—Yes.

Mr. Shepley: This printed memorandum manifestly is all upon the lines of the communications of Mr. Macaulay? A.—Yes.

(The file of documents last read now marked Exhibit 47.)

Q.—Then there is a short matter that I might finish to-day. This probably is self-explanatory. Apparently in the return made by the Imperial Life Assurance Company for 1903, certain matters were discovered which caused you to write a letter to the secretary,

Mr. Bradshaw, on the 10th of March, 1904? A.—Precisely.

Q.—(Reads from "Sir: The report upon the recent official examination of the affairs of your company made by this department" to "Dominion Iron and Steel bonds.") Before going farther with the letter, what had you in mind there, what was this arrangement with the directors that you speak of, "the remainder of the bonds were by arrangement with the directors sold at cost, or 22,000." A.—I understand that they took it off the hands of the company at what it cost.

Q.—Then your letter proceeds, "In view of the fact that the company could not legally invest in the securities named, I am advised that the directors of the company are personally liable" to "may not suffer by reason of such unauthorized investment." Then, did you get any reply to that immediately? There seems to be none here. A.—There was not a reply immediately, but being in Toronto I called on the company and saw, I think, Mr. Bradshaw. He told me that the amount of the loss would be made good by the directors. However, later on I returned to Toronto and I had not been informed that the loss had been made good. I then wrote to the president and enclosed to him a copy of the letter to Mr. Bradshaw.

Q.—I will come to that. Your letter to Mr. Bradshaw was founded upon a report with respect to the Imperial Life made by Mr. Blackadar, which appears here? A.—Yes.

Q.—And that report, before going to the letter of the president of the company, I propose to go through. "Re Imperial Life." This report is signed by Mr. Blackadar. (Reads from "The statement of the company sent in to this office" to "Dominion Coal Company stock.") That is the loss referred to in your letter? A.—Yes.

Q.—(Reads from "There was also added to interest account.") That letter I should like to have. It is not part of this. A.—I can get it.

Q.—The letter to Mr. Bradshaw of January, 1904, shortly after the receipt of the statement. (Reads from "Of the above items the interest \$1,247.04 was not received by the company" to "income.") That is made by Mr. Blackadar in revising the returns? A.—Yes, he made the return.

Q.—(Reads from "Also the next item" to end of paragraph.) A.—The same; it has been put into the right account.

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Q.—(Reads from "Atlas Loan bonds" to end of paragraph.) Then he comes to the Dominion Coal Company matter. That is our old friend that appears in your letter? A.—The same.

Q.—(Reads from "On January 16th, 1903," to "sold at cost.") That means taken off the hands of the company by the directors at \$22,000? A.—Yes.

Q.—(Reads from "Total realized" to "amount of loss.") That is our other old friend stated in the letter? A.—Yes.

Q.—(Reads on to "That may in any way arise to the purchaser.") You did not get an immediate reply from Mr. Bradshaw, you were at Toronto and saw him? A.—And saw him.

Q.—And finally you wrote on the 23rd of May a letter to the president of the company, Sir Mackenzie Bowell? A.—Yes.

Q.—(Reads from "Permit me to call attention" to "preparation for the printer.") Then on the 20th of June a letter was written by Mr. Bradshaw, which you got on the 21st, "Referring to your communication of the 10th of March, 1904, I beg to say that the amount \$10,384.23 has been received by this company." Have you investigated to see in what form it was received? A.—It was paid in cash, I understand. Mr. Blackadar checked that later on that the amount had actually been received.

Q.—From whom? A.—Well, from the directors.

Q.—Not out of the funds of the company? A.—Oh, no, from the directors.

Q.—Well, then, the improprieties—I call them that for want of a better word—the irregularities disclosed by the returns were in part corrected by Mr. Blackadar in the returns themselves? A.—In the returns themselves.

Q.—Putting upon the face of the returns the entries which would rectify the returns in that regard? A.—Yes.

Q.—With regard to the matters which were not capable of rectification as matters of bookkeeping, amounting to \$10,000 odd dollars, you put yourself in motion and the result was that in the following June the money was paid in? A.—The money was paid in.

Q.—And the amount which had been lost by dealing in the unauthorized securities was made good by the officers of the company? A.—Yes.

(Adjourned to 10 a.m. on Thursday, 29th March, 1906.)

Ottawa, March 29th, 1906.

TWELFTH DAY.

The Commission resumed at 10 a.m.

MR. SHEPLEY. During yesterday's proceedings, in the ordinary course, I put in a list of the trustees of the foreign companies holding assets in Canada. It never occurred to me that an explanation, which was patent almost upon the face of it with respect to the position of one of the Board, could be misunderstood for a moment. Of course everybody that knows Mr. Langmuir knows that he is the General Manager of the Trust Corporation, and Mr. Hoskin, who is the other gentleman named as trustee, is the President of that corporation. The fact shown upon the blue books, of course, is that it is the trust corporation that is acting as trustee, and it is a mere matter of form that Mr. Hoskin's or Mr. Langmuir's name should appear as trustee, the Act requiring individuals. It is hardly necessary to say that neither Mr. Hoskin nor Mr. Langmuir has the slightest interest whatever in the trust, and it does not seem to me that the position of trustee at all militates against the position of Mr. Langmuir on the Board. It is proper that I should say—because it is possible that the position may be misunderstood, although I think it is not misunderstood—that the transaction represented a mere formality, as far as Mr. Langmuir is concerned.

MR. HELLMUTH. I, of course, yesterday noticed the matter which my learned friend has mentioned. But in view of what Mr. Shepley has stated, and, understanding the situation, that the foreign life companies doing business in Canada are obliged either to deposit funds with the Dominion Government, or are obliged to place securities in the hands of the trustees, for the purpose of assuring the public that there are assets sufficient to answer claims, I should have thought that the mere mention of any names had no connection with this enquiry. Of course, if any gentleman on this Commission, or connected with it, were in any way, directly or indirectly, interested in that company, it would be manifestly absurd for them to occupy a position upon the Board. But I do not understand in this case that Mr. Langmuir is even in reality trustee of these securities; that the Toronto General Trust Corporation—of which company, of course, it was known at the time of his appointment that he was manager—are the depositors, one might almost say the conduit pipe, by

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which these can be realized; and although my interests are those entirely of the policyholders, I have no hesitation in saying, as I think it is my duty to say, that I cannot see that that has any bearing upon this investigation, or could have any connection with it when the affairs of that company are, if they are, investigated, that Mr. Langmuir is in no way connected with the company in any shape or form. He is a mere holder, as anybody might be, of certain securities of the policyholders.

MR. LEBEUF. I do not think I need add anything to what has been said. This reference will only afford us the more reason to believe that Mr. Langmuir probably knows more than we do about insurance business, and he may throw some light on it. I may say that on our side we are in a sort of conundrum.

MR. LANGMUIR. I am very sorry indeed that a matter personal to myself should take up the time, for a moment, of the Commission. The facts are exactly as stated by the Counsel for the Crown. I have not a single farthing of interest, either one way or the other, pecuniarily or personally, with the Mutual Reserve. The Trust Corporation alone, as the blue book, at page 277, shows, holds all the securities standing in their name. The name of Dr. Hoskin and my name were simply used because our friend here, Mr. Fitzgerald, ruled that a corporation individually could not be accepted, and it must be one individual with the corporation. So that Dr. Hoskin very kindly proposed, rather than lose the transaction, that our names should, as a matter of form, be inserted. That is the whole matter. I have not one farthing of interest in it. I am exceedingly grateful to the counsel for the Crown, and also to the counsel for Ontario and Quebec, for the kind references made to this matter.

THE CHAIRMAN. I may state that, at Mr. Langmuir's instance, we considered this matter as soon as it appeared in evidence here. The best indication that it was absolutely unimportant was that Mr. Langmuir had not recollected that he was personally a trustee until the document was produced here. We came to the conclusion, after consideration, that there was not only no disqualification, so far as Mr. Langmuir was concerned, but no impropriety whatever in his proceeding with the enquiry, and it is very satisfactory to us to know that our conclusion is concurred in and meets with the approval of the counsel

engaged in the case, both the counsel for the Crown and counsel for the provinces.

WILLIAM FITZGERALD—Examination by Mr. Shepley resumed:

Q.—Were there any of the queries yesterday that you were able to obtain answers to? A.—Yes, I was asked for a copy of a letter to Mr. Bradshaw, which was referred to in some of the correspondence put in yesterday. This is a copy of the letter.

Q.—This is in connection with the Imperial Life matter, that was spoken of just before we adjourned? A.—Yes.

Q.—You have now your letter to Mr. Bradshaw of the 29th January, 1904, and which would precede then your second letter of the 10th March, 1904. This letter of the 29th January seems to have been written before the books had been at all looked at? A.—Yes.

Q.—And this was written upon an inspection of the return itself? A.—Yes, it is a letter written by Mr. Blackadar.

Q.—This letter is signed by Mr. Blackadar? A.—Yes.

Q.—You were cognizant of it being sent officially, or were you? A.—Oh, I am not sure that I was at the time it was sent. It is a matter that Mr. Blackadar would naturally write about himself.

Q.—He would do that without reference to you upon an inspection of the concern? A.—Mr. Blackadar reminds me that I was away at the time.

Q.—It is quite in the line of Mr. Blackadar's duties? A.—Oh, entirely in the line of his duty.

MR. SHEPLEY. 29th January, 1904, to T. Bradshaw, Actuary Imperial Life Assurance Company, Toronto. "In looking over the statement of your company I find that a number of changes have been made in the ledger"—(Reads letter.) This had better be attached and form part of the record. It will be part of Ex. 33.

MR. HELLMUTH. Has the correspondence of the Imperial Life gone in?

MR. SHEPLEY. Yes, it has gone in as Exhibit 33. I was not ready to come to it before.

Q.—Then is there any other matter that you supplement? A.—I was asked the name of the Chairman of the Banking and Commerce Committee in 1899. I find it was Mr. Archibald Campbell.

Q.—He was chairman of that committee? A.—Yes.

Q.—Any other matter that you supplement? A.—That is all, I think.

MR. SHEPLEY. I ought to say that this is a matter that would have been in order when Mr. Blackadar was being

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examined, but as the correspondence was marked "private," I desired, as one would naturally desire, that the seal of privacy should be removed from it by the persons engaged. I wrote a letter to Sir Mackenzie Bowell on the subject and he was good enough to say, as all expected him to say, that certainly the letter was available for the purposes of trustees are Symons, Evans, Percy of the the Commission. This is a letter of the 8th November, 1905, from Sir Mackenzie Bowell to Mr. Fitzgerald. It commences "I notice you have issued an interest paper on life insurance inspection." (Reads letter.) Then this is a copy of your reply on the 13th December? A.—Yes.

Q.—"I have received your letter of the 8th inst," (Reads letter.) Then a letter from Sir Mackenzie Bowell of the 21st December. "Thanks for your letter re subscriptions by life companies to charitable or other institutions. (Reads.) Then you replied from Toronto by a letter, a copy of which is on the back of the letter that I have just read. (Letters, Ex. 48).

Q.—You will, perhaps, remember a company known as the Union Life Insurance Company commenced to make returns to you in the year 1902? A.—That would be the year. I think the charter was granted some time about June or July, 1902. July, 1902, I should think.

Q.—And it was a company incorporated by the Province of Ontario? A.—No, the Union Life was incorporated by the Dominion.

Q.—It was incorporated by an Act of that year, 1902? A.—1902.

Q.—And its first return is shown at page 373 of the blue book for that year? A.—Yes, that is correct.

Q.—And I see that the capital authorized and subscribed for was \$1,000,000? A.—\$1,000,000.

Q.—And upon that apparently ten per cent. had been paid up in cash, because the amount paid up in cash is said to be \$100,000? A.—Yes.

Q.—I want you to follow that item through the blue book for the succeeding year; take 1903, page 368? A.—Yes.

Q.—You see the same item there "Amount of general stock, capital authorized and subscribed for \$1,000,000; net amount paid up in cash \$100,000"? A.—Yes.

Q.—And for the year 1904 at page 379 the same? A.—The same.

Q.—There is no difference, and in the return for 1905, which is not yet in the shape of a blue book, you find the same? A.—The same.

Q.—That is, there has been no alteration in the amount of capital stock or in the amount paid up upon it? A.—No.

Q.—That seems to have remained constant from the time of the first return down to now? A.—Yes.

Q.—Then going back to the first return, the return for 1902, you find, passing over, for the moment, the assets, on the first page of the return, and coming to the top of page 374, you find an item of assets there, "Cash with North American Life Assurance Company"? A.—Yes, I see that.

Q.—In the blue book which I have that is \$11,078.63, and no doubt it is the same in the one which is before you? A.—Yes.

Q.—Are you able to give us any explanation of that asset? A.—As I understand it, it is this way: prior to that time the North American Life had issued a number of industrial policies, and the National Agency had been in some way conducting the business for the North American Life in respect of those industrial policies.

Q.—What is the National Agency? A.—The National Agency is a company incorporated under the Joint Stock Company's Act of the Province of Ontario, and one of its powers is to act as agent for insurance companies in the transaction of their business. It is a corporate insurance agency.

Q.—That is, it is a corporation with power to transact business; it is a corporation formed with the power of acting as an insurance agent? A.—Yes.

Q.—I want to know whether, upon the return being made to you, you made the enquires which would enable you to answer these questions? A.—Yes, precisely.

Q.—Your attention was drawn to that asset, and you made enquiries with regard to it? A.—Yes.

Q.—Did you learn anything about the composition of the agency company? A.—I have a copy of the charter. It is in amongst a bundle of papers. I think this is the charter.

Q.—It seems to be a charter granted under the Ontario General Companies' Act? A.—Yes.

Q.—Then the persons that are named are Harry Symons, A. E. Plummer, James O. Buchanan, F. W. S. Crispe and H. P. Evans, all of the City of Toronto, in the County of York, and any others who have become subscribers to the memorandum of agreement are made a corporation for the purposes and objects following: that is to say, to act as the managing agents for any insurance company that stands registered as such un-

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der the Ontario Insurance Act. Then this power to act as insurance managing agents is limited to such companies as derive their corporate power from the Province of Ontario? A.—No, the companies that stand registered under the Ontario Insurance Act.

Q.—The corporate name is to be the National Agency Company, Limited, and the share capital is to be \$100,000 divided into 1,000 shares of \$100 each, and the head office is to be at Toronto, and Symons, Pummer and Evans are the Provisional Directors. There is this special clause—"We direct that the company hereby incorporated shall from time to time, as agency or agencies is or are undertaken, forthwith notify our Provincial Secretary of the name or names of such company or companies, and that if the company make default in complying with this condition, which is accepted by the company, then our letters patent may thereupon be suspended or cancelled." That is the charter? A.—Yes.

Q.—What is this bundle of papers? A.—I have not recently read that bundle of papers. I only pulled it out of the pigeon hole last night, not knowing it would be taken up to-day, or I should have gone over it, but it relates to all matters from the time the charter was granted to the company down to the time it got its license.

Q.—That is the Union Insurance Company? A.—Yes.

Q.—This is a bundle of papers dealing with the Union Insurance Company? A.—The Union Life.

Q.—Which was making its returns to the department from the time it got its Act of Incorporation down to the time of its license? A.—Yes.

Q.—What was the cause of this accumulation of papers? A.—Well, the principal shareholder of the Union Life Company was the National Agency. Under the Act incorporating the company there is a provision that there must be five directors, I think it is, and they must each hold a certain amount of stock.

Q.—This is the Act, chapter 109, of 2 Edward 7th; there is to be a Board elected by shareholders who have paid not less than ten per cent. on the amount of shares subscribed for by them, and the Board is to consist of not less than seven or more than twenty-five directors, of whom a majority shall be a quorum, and no person shall be a director unless he holds in his own name and for his own use 25 shares of the capital

stock of the company, on which all calls due thereon are paid? A.—That is the clause.

Q.—Go on with the explanation of why this collection of papers came to be made? A.—That is one of the questions that came up. It appeared that the shareholders—I may say almost the sole shareholder were this National Agency Company, and that the other shareholders simply held sufficient to qualify them.

Q.—The shareholders at the date of the first return, 31st December, 1902, are shown at page 596 of the blue book; Evans has \$2,500 of stock; that would be 25 shares, upon which ten per cent. has been paid? A.—Just enough to qualify him under the Act.

Q.—Hughes 25, Allan 25, Millichamp 25, Percy 25, Symons 25 and Vallerond 25, and the National Agency Company has subscribed for \$982,500 of stock, upon which \$98,250 has been paid? A.—Yes.

Q.—Now go on? A.—I shall probably not be able to explain it with any degree of minuteness, because it is only four years ago, but I know it was necessary to refer one or two questions to the Department of Justice in reference to it, and I think there will probably be found an opinion there; if not, I have an opinion on it somewhere.

Q.—I had perhaps better go through the papers chronologically before I return to the subject of the annual returns of the company. The first of these documents in point of position in the bundle of papers is a copy of the certificate of license? A.—Yes.

Q.—Dated 15th July, 1892, signed by the Deputy Minister of Finance and by yourself? A.—Yes.

Q.—It certifies that the Union Life Insurance Company having made the necessary deposit, and having complied with the Insurance Act as amended, is hereby, in pursuance of the Minute of the Honorable Treasury Board, dated 15th July, 1902, licensed to carry on in Canada the business of life insurance? A.—Yes. That correspondence is not in chronological order, because I am satisfied very much of it took place before the license was issued.

Q.—I think it will facilitate matters if we arrange it as we go. I see that on the 20th June Mr. Symons writes to you this letter, re Union Life. (Letter read.) Will you take that bundle and take out these papers as they are mentioned here. First, the certified copy

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of the Act of Incorporation? A.—There is the certified copy of the Act of Incorporation. These are attached together. There is the certificate of fying of certain documents with Mr. McNamara; that is the appointment of the chief agent, and that is the affidavit verifying it; that is the affidavit of execution, and there is the list of shareholders, all contained in that bundle.

Q.—Then A.B.C. and D. mentioned in this letter are all in this bundle? A.—In that bundle.

Q.—You have there a list of shareholders, and you have Evans, Hughes, Jones, Millichamp, Percy, Symons and Vallerond, 25 shares each, amount paid \$250 each. Then you have Harry Symons, H. Coleman Evans, Charles Percy, in trust, 6,075 shares; \$607.50; making a total amount paid of \$62,500 upon 6,250 shares; that is the shareholders' list, and the bulk of the stock is held in trust by Symons, Evans and Percy? A.—Yes.

Q.—That will follow upon this letter of the 20th June. To that I add the letter of the 21st June from Symons, "I enclose the Sault Ste. Marie statement just received, which can be attached, if necessary, to the schedules"? A.—These are schedules relating to the securities.

Q.—I will pass over this for the time being, because I do not know that they are of very much moment in the matter I am pursuing. Then on the 26th June another letter from Mr. Symons. "Should it be desirable for me to attend any meeting of the Treasury Board I am prepared to do so immediately on being advised by wire, if necessary"—(Reads letter). Now, what is the next? A.—I am afraid this bundle does not contain copies of my replies.

Q.—Those we shall have to get afterwards. For the time being we can perhaps go on, supplementing these by your replies afterwards. Symons writes you as requested. You must have asked for some information from him. Then comes the balance sheet "Cash received of stock subscriptions, ten per cent. of \$625,000, \$62,500; by paid City of Winnipeg \$25,380. (Reads items). Then that is accompanied by a Statutory declaration by Mr. Evans and Mr. Symons. That is the statement by way of balance sheet that is referred to in the letter. Then next is the charter of the National Agency Company, which you have already referred to, and which has been sufficiently read. The next is a certified copy of the by-law and resolution authorizing the subscription of stock. That is cer-

tified under the seal of the National Agency Company, signed by the Secretary, Mr. Evans, that the following is a true copy of by-law number 36 of the said company, which was duly passed as required by law at a special meeting called for that purpose, etc. (Reads). Those were the three enclosures in the letter of the 24th June. I think next is the letter of the 26th June, which I have already read, saying they were anxious to get into business by the 1st July, that they had the staff engaged, offices secured, and their stationary printed. What is next after the 26th June? A.—I have here a letter dated 2nd July.

Q.—This is from Mr. Symons to you. That seems to have been called forth by an inquiry of yours as to the nature of the trust disclosed in the list of shareholders? (Letter read). A.—Yes.

Q.—He points out that the seven directors are individual subscribers to the extent of 25 shares each? A.—Yes.

Q.—And that the trust disclosed as to a large number of shares is a trust for the Agency Company? A.—Yes.

Q.—Then this is the trust deed. The trustees are Symons, Evans, Percy of the first part, and the National Agency Company of the second part. (Reads deed). Then what is the next? A.—The next letter I appear to have here is dated the 11th July.

Q.—And the next? A.—The next is July 14th.

Q.—There is an alteration in this. Instead of being the shareholders of this stock, the National Company is put in as the holders? A.—Yes.

Q.—What is next? A.—I am afraid a couple of them went a little out of order. I see two here dated 3rd and 7th respectively.

Q.—Letter 3rd July. (Letter read). The statement referred to is as follows—(Statement read). I want to ask you, what investigation did you make, if any, as to the correctness of that statement? A.—That is, as to the National Agency?

Q.—Yes? A.—I do not think I made any question.

Q.—You do not think any question was made as to the correctness of that? A.—I find here, dated 14th July, a copy of an opinion from the Department of Justice.

Q.—I will get to that in its order. You see the first credit item in this financial statement is "Uncalled stock and premium \$249,000"? A.—Yes.

Q.—I want to ask you whether uncalled stock, according to your view of the purposes for which such a state-

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ment is prepared, has any proper place in such a statement? A.—It has not.

Q.—I will pass that over and come to it again, and try and put it in its proper place. Then you have here a letter from Mr. Symons 7th July, "As requested by yours of the 4th"—(Reads letter). Then you have a list of the shareholders in the National Agency, very largely made up of small shareholders? A.—Quite a large list of them.

Q.—And you do not find any large holdings of stock, do you, anywhere? A.—No, I do not think there is.

Q.—Will you find for me the holding of stock of any of the gentlemen who appear in the Union Life. I will give you the names. Take Mr. H. Coleman Evans? A.—\$8,000; \$2,000 paid up.

Q.—I thought ten per cent. was to be paid up, or was it 25 per cent.? A.—This is 25 per cent.

Q.—He has \$8,000 on which he has paid \$2,000? A.—Eighty shares, par value \$8,000, on which he has paid \$2,000.

Q.—Give me F. G. Hughes? A.—F. G. Hughes 100 shares, par value \$10,000, upon which he has paid \$2,500.

Q.—Then give me G. E. Allan Jones?

A.—G. E. Allan Jones, Quebec, 150 shares, par value \$15,000, \$3,750 paid up.

Q.—G. E. Millichamp? A.—Ten shares, \$1,000, \$250 paid.

Q.—Charles Percy? A.—Charles Percy, ten shares, \$1,000; paid up in full.

Q.—Harry Symons? A.—Harry Symons, 26 shares, \$2,600; \$650 paid up.

Q.—A. E. Vallerond? A.—Vallerond, 50 shares, \$5,000; \$1,250 paid up.

Q.—Those are the holdings of stock in the National Agency by the gentlemen who were applying for a license for the Union Life? A.—Yes.

Q.—Is it fair to infer, according to your view, from this list of shareholders of the National Agency Company, that this was a company into which the public was invited to put their money? A.—Well, yes, I should think so.

Q.—What is next? A.—This letter.

Q.—On the 14th July a letter from Mr. Fraser, for the Acting Deputy Minister to you? A.—Yes.

Q.—That acknowledges the receipt of your letter of the 10th; so that there is another letter of yours? A.—Yes.

Q.—This letter says—(Letter read). That is all in reference to the original proposition that the shares in the Union Life held on behalf of the Na-

tional Agency should appear in the name of trustees? A.—Yes.

Q.—That Mr. Fraser says, would leave the trustees not responsible, and the National Agency not responsible? A.—That is it.

Q.—The second answer is—(Reads). That is in respect to an ultimate getting at the agency company through its shareholders? A.—Yes.

Q.—Then the third answer is—(Reads). Then that you did? A.—Yes.

Q.—As appears? A.—Yes.

Q.—Apparently on the same day that this opinion was given you wired to Mr. Symons, because on the same day, 14th July, he says "As requested by your wire to-day, I enclose you correct list of shareholders"? A.—Yes.

Q.—And the correct list was the National Agency Company appearing as the owners of the stock which the trustees appeared to own before? A.—Yes.

Q.—Is there anything else? A.—Nothing else, I think, but the telegrams and letters.

Q.—Then with the letters from your department and telegrams, that would complete the file, and it will be put in that order and marked as Exhibit 49. The company then was licensed, and it went on with its business from then till the end of 1902? A.—Yes.

Q.—And at the end of 1902 the return was made which we were commencing to discuss. We had got as far as the item in the assets \$11,078.63 cash with the North American Life Assurance Company, and you were starting to make the explanation when the production of these papers made it proper that we should go through them. Now, finish your explanation, please? A.—After a license was granted to the Union Life some arrangement was made by which the Union Life became responsible for the policies which had, prior to that date, been issued with the North American Life through the National Agency? A.—The National Agency now had a company of its own—you may say a company of its own—and they preferred to do business through that company, and thereafter the business which had been done through the North American was transacted through the Union—that is, by the Union Life, in the name of the Union Life, through the National Agency. The same agency continues. They transferred their business to another company.

Q.—See if we have that right; while the Union Life Assurance society was in embryo, the National Agency, which

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subsequently brought it into being, was doing business for the North American Life? A.—Yes.

Q.—And in the course of doing that business had collected and given to the North American Life a certain volume of insurance? A.—Yes.

Q.—Upon bringing its own child into being, that insurance was transferred to the Union Life? A.—Yes.

Q.—And how did that result in a balance in the hands of the North American Life? A.—The North American Life had already issued its own policies, and was therefore liable upon those policies directly, and the North American, as it was still liable, the business having gone out of its hands, insisted on having sufficient money on hand to cover a reserve upon these policies.

Q.—That is, the North American Life insisted upon having a deposit from the Union Life— A.—From the Union Life.

Q.—Which was to have the benefit of the business? A.—Yes.

Q.—Sufficient to indemnify the North American Life in respect of the liability upon that class of insurance? A.—Yes.

Q.—And that was what is referred to as cash with the North American Life Assurance Company? A.—That is it.

Q.—You are able to say that that was an investigation which you made at the time, or which was made by your department? A.—Yes, it was made by the department. I certainly made certain enquiries into it myself, and I remember Mr. Blackadar did so as well.

Q.—There is a very small item, but I want to understand what it is. It is under the same head of assets, "Cash value policy North American Life Assurance Company \$207.90; premiums paid thereon, a total of \$263.40" taken in assets. I wish you would explain that if you can? A.—I do not remember what that is.

MR. SHEPLEY. Perhaps Mr. Blackadar will look among his records and see if he can find anything which will enable that to be explained. Of course there is an apparent explanation upon the face of it, but one does not want to make that without knowing.

Q.—Then the total assets in this return for 1902 are shown, including this balance and including the investments at \$118,475? A.—Yes.

Q.—And the total liabilities are shown at \$13,005.44, and that brings out an apparent surplus on policyholders account of \$105,649.56? A.—Yes.

Q.—Now, come to the income for that year: cash received for premiums \$13,-

129.43; received for interest or dividends \$1,640.56, premium on capital stock \$70,000; what is that? A.—That is a sum that was paid over to the company by the National Agency.

Q.—Premium on capital stock, \$70,000 is cash received from the National Agency? A.—Yes.

Q.—That is the explanation which was made at the time? A.—Yes, that is the explanation of it.

Q.—What capital stock is referred to in that item? What would it naturally mean in a statement of this kind? A.—It would be on the capital stock that is paid up, \$100,000.

Q.—That is of the Union Life? A.—Yes.

Q.—So that this is an item of \$70,000, which is said to be premium in respect of stock of the Union Life paid up to the extent of \$100,000? A.—Yes.

Q.—And in fact it was cash paid into the coffers of the Union Life by the National Agency? A.—Yes; well, I am not prepared to say the individual shareholders did not also contribute a proportion of it.

Q.—You do not know how that may be? A.—No, but the bulk of it came from the National Agency.

Q.—We will see how that is afterwards, but the bulk of it would naturally come from the National Agency, who were by far the largest stockholders? A.—Yes.

Q.—"Received for calls on capital, \$100,000"; that would be \$100,000 paid up capital? A.—Yes.

Q.—That is put under the head of "Income." Total income during the year \$184,000 odd. Now, let us come to the expenditure. Paid for death claims, \$2,056; for surrendered policies, \$34.80; commissions, salaries, and other expenses of officials, \$62,944.58. Have you, or had you at that time, any detailed list of these commissions, salaries and other expenses? A.—That examination as to these details was made by Mr. Blackadar, and I have no doubt it was borne out by their books. It was an industrial company and their expenses are enormously heavy, and will so continue for a number of years.

Q.—All other expenditure \$8,905, or a total expenditure of \$73,709.31, leaving a balance which they call net ledger assets to 31st December, 1902, of \$111,060.68. Now I want to call your attention to some other items in this return. During this half year they seem to have issued new policies to the number of 7,984. You will see that at page 375,

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under the head "Miscellaneous"? A.—Yes.

Q.—Is there any qualification or modification of that involved in the use of this language "Number of new policies reported as taken during the year"? Would that cast a doubt upon the accuracy of that, or does that indicate—A.—That indicates there were that many new policies taken.

Q.—Then the next item is "Policies reinsured from the North American Life 5,806; you see that? —

Q.—Would that be the group of policies of which you were speaking a moment ago? A.—Yes.

Q.—As to which the North American Life held the reserve? A.—Yes.

Q.—Policies reinsured from the North American Life 5,806, and policies issued during the year, industrial 7,900? A.—Yes.

Q.—That is 7,900 policies in number of the industrial class issued during that year? A.—Yes.

Q.—That would indicate that the business of the company was very largely in industrial policies? A.—It is almost exclusively industrial.

Q.—Then I call your attention to the next group; apparently during that half year no less than 3,378 policies lapsed; is that, in the case of industrial insurance, a circumstance that furnishes food for reflection, or suggests enquiry? A.—No, I think it is just in the very nature of the business; the lapse is always expected.

Q.—That is a necessary or natural incident of that class of insurance? A.—Yes.

Q.—Speaking generally of that statement, if you exclude the call upon the stock which is collected as premium, \$70,000, what do you say of that half year's business? A.—Well, it was entirely unprofitable, going back.

Q.—And the \$70,000 as premium does not increase the payment upon the stock at all? A.—It does not. It still leaves the stockholders liable just as they were before that time.

Q.—Leaves them liable for the difference between \$100,000 and \$1,000,000? A.—Yes.

Q.—Now, then, we come to the next year. You have already told me that at the end of the next year, 1903, amount paid on the capital appeared to be precisely the same. Is there any substantial difference—just make the comparison, so that we may have it upon the notes—is there any substantial difference in amount between the investments

at the end of 1902 and those at the end of 1903? Perhaps the fairest way is to get the two sums and put them side by side, the investments at the end of 1902 were \$59,653.43, using the word in respect of investments properly so called? A.—\$59,653.43 and at the end of 1903 \$65,618.39.

Q.—An increase of investment of about \$6,000? A.—About \$6,000.

Q.—Then I see that among the assets, as far as the assets are concerned, the other assets, the cash in the hands of the North American Life seems to have disappeared; do you observe that? A.—No, it appears to remain.

Q.—Where? A.—Lower down.

Q.—It still remains; it is somewhat less in amount? A.—I think it is precisely the same, \$11,078.63 in each case.

Q.—Then comes the income account. You have received for interest or dividends \$4,264.88, and again you have an item "Premium on capital stock \$100,000?" A.—Yes.

Q.—Did you enquire, or was enquiry made, into that account? A.—It came from the same source as before.

Q.—That is the National Agency Company paid in \$100,000; I suppose that was verified; the fact was so? A.—Yes.

Q.—Which is put as a premium upon the capital stock of the Union Life? A.—Yes.

Q.—Leaving the same old \$900,000 of unpaid capital for the shareholders of that company to pay up? A.—Yes.

Q.—Was any enquiry made by the department with respect to the sources from which the National Agency Company got these enormous sums of money? A.—Nothing except the general information that they had collected it from their shareholders.

Q.—That is, they were collecting from the shareholders of the National Agency Company and turning it over into the Union Life? A.—Yes.

Q.—Then the total income during the year appears to have been \$172,541.06, and the total expenditure \$168,215.67, of which \$10,251.75 was paid to policyholders for death claims and surrendered policies, and \$130,597.37 paid by way of commissions, salaries, and other expenses of officials? A.—A portion of that, and probably the bulk of it, would be paid to the National Agency Company, however.

Q.—Why? A.—Because they were doing the business.

Q.—The National Agency Company were doing the business? A.—Yes.

Q.—The Board of Directors of this company had employed the National Agency Company? A.—Yes.

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Q.—They made a contract with the National Agency Company by which they were doing the business? A.—Yes.

Q.—What was the Board of Directors of this company doing? A.—Well, it is difficult to say what they were doing.

Q.—What were they doing for the Union Life? They were unloading their functions, were they not, upon the National Agency Company? A.—I suppose they were doing that.

Q.—To what extent—will you just verify that—to what extent was the directorate of the National Agency Company identical with the directorate of the Union Life? A.—I do not know that I have that information at present.

Q.—That could be obtained at all events, at the time of the charters of the two—you can obtain that from the material we have here? A.—Yes.

Q.—There was a substantial agreement between those two bodies? A.—There was; some of them the same, no doubt.

Q.—That is a matter that we can get at with absolute accuracy from the returns of this company and the public reports of the other? A.—I have here a circular issued by the National Agency, which gives the list of their directors in 1904-05; it is dated 14th February, 1905.

Q.—That is of the Union Life? A.—No, the National Agency.

Q.—Who are they? A.—President, Harry Symons; Vice-President, F. C. Hughes; directors, Harry Symons, G. E. Millichamp, Lieut.-Colonel G. E. Allan Jones, H. Coleman Evans, F. G. Hughes, A. E. Vallerond. Then there is an Advisory Board, E. G. Smith, director of the Union Bank, Halifax, there is M. A. Curry, President Haytlen, Halifax; James E. DeWolfe, President Board of Trade, Halifax; Harry Graham, New Glasgow, Nova Scotia; Nathaniel Curry of Amherst, Nova Scotia; the auditor is George Clay, and the bankers the Union Bank of Canada.

Q.—I am looking at the list of directors, and there does not seem to be any difference between the two Boards; that is as to the personnel of the two Boards? A.—No.

Q.—There is an item or two I want to ask about in "All other expenditure." There is advertising \$2,000 odd. What were they advertising? A.—All companies issue advertisements from time to time.

Q.—I should have thought it would be very largely to the interest of the National Agency Company to do all the advertising that was necessary. At all events, that would be a charge for advertising the business of insurance? A.—Yes.

Q.—Which they had turned over to

the National Agency Company? A.—Of course the National Agency was simply acting as their agent transacting the business, the company itself doing the advertising, the nature of their business, and so on; but was carried out by the National Agency Company.

Q.—They bring down the net ledger assets \$111,000, and they add the income as before \$172,541, making a total of \$283,601.74, from which they deduct the expenditure shown for the year, \$168,265.67, leaving a balance of net ledger assets of December 31st 1903, \$115,336.07; that is an apparent gain of about \$4,000? A.—Almost \$4,300.

Q.—Again I ask you whether, but for this item of premium on capital stock \$100,000, that year's business would have been profitable? A.—Certainly not.

Q.—It is manifest it would have been ridiculous; is that too strong a word? A.—No, I would not say that, that is too strong a word.

Q.—There is something I omitted under the heading "miscellaneous"; in 1903 new policies seem to have been written during the year to the number of 33,651, and at the end of the year there seems to have been 24,446 policies in force; that seems to be so on the face of the statement? A.—That seems to be so.

Q.—And the policies were, whole life, ordinary, 153 in number; endowment, ordinary, 103; whole life industrial, 22,806; endowment industrial, 1,382. Are you able to say—we will see when we come to the following year—are you able to say anything about this class of industrial insurance done by this company—on what class of lives it was? A.—No, we never know the class of lives.

Q.—Then I see there were a great many lapsed policies during that year, 19,382; policies lapsed during the year 1903 to the amount of \$3,133,076.55. Has that to your mind any significance, or would you say of that as you said of the similar item in the preceding year, that that is a natural item, having regard to that class of insurance? A.—I think it is just a natural item, having regard to that class of insurance.

Q.—Then take the next year, the same old authorized capital subscribed for, \$100,000, the same amount paid up in cash, \$100,000. The investments of the company seem to have increased during this year; they appear now to be \$109,491.20? A.—Yes.

Q.—The cash with the North American Life has increased? A.—It has gone up to \$14,725.33.

Q.—Then there is an interest account, the North American Life Assurance Company interest account; do you

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remember the explanation of that at all? A.—I presume it is in connection with the \$14,725; probably they include interest upon that sum. Of course, I am only conjecturing, because I do not know precisely what that item is; possibly Mr. Blackadar would remember.

Q.—I suppose the reserve there which the North American Life was insisting upon holding in respect of its liability upon these policies would naturally increase from year to year if the policies remained in force? A.—Yes.

Q.—Then there is a substantial increase, I think, in the item "Office furniture and fixtures"; I will pass over that. Then when you come to the total assets, you have a total of assets of \$16,843.51, and a total of liabilities including the reserve of \$60,233.77, or a surplus on policyholders' account of \$104,609.74. Then when you come to the income for the year let us see what you have. "Cash received for premiums after deducting the premiums paid to other companies reinsured, a small amount, \$123,255.85; interest or dividends \$3,047.37. There seems to have been a small falling off from the preceding year; premium on capital stock account, \$115,000; is that the same? A.—The same.

Q.—That is a similar item to the one in the preceding year? A.—Yes.

Q.—Then of the expenditure there was \$18,255.12 paid to the policyholders for death claims and surrendered policies; that is right, is it not? A.—As shown by the books.

Q.—And commissioners' salaries and other expenses of official, \$157,441.03? A.—That is right.

Q.—Then, of course, the per cent. is obvious between the net cash received for premiums, \$123,000, and the commissions and salaries amounting to \$157,000? A.—Yes.

Q.—During that year was the same relationship maintained between this life company and the agency company? A.—I think so.

Q.—Then the synopsis of ledger accounts brings down the balance from the preceding year of ledger assets \$115,336.07, adds the cash income, as shown by this year's operations \$241,303.22, and deducts the total expenditure which, including the \$157,000 of salaries and commissions is \$206,174.79, and they take forward net ledger assets on the 31st December, 1904. \$150,464.52. Now, again I come to the miscellaneous item in the exhibit of policies "Number of new policies reported as taken during the year 29,454; underwriting \$5,093.900 odd of insurance; number of policies in force at the end

of the year 30,321. Was there any difference in the requirement of your department as to the form of the return in this year 1904 from what it was in the preceding years, because in a moment we are going to see that there is a good deal more information in this return? Do you remember how that was? A.—I do not remember just now asking for any further information.

Q.—Then the number of policies in force, as I have just said, was 30,321, an insurance of \$5,087,778.16, from which may be deducted \$29,700 reinsured in other companies? A.—Yes.

Q.—Then I pass to the details of ordinary policies. There were terminated during the year, by death, three; by lapse, 71, and 49 by not being taken. I suppose that means the premiums had to be reversed? A.—The premiums were not actually paid.

Q.—And would have to be reversed in the account? A.—Yes.

Q.—Then when you come to industrial policies we have some further details. At the beginning of the year there were in force, whole life industrial policies to the number of 22,810; endowment policies industrial to the number of 1,380. During the year there were issued industrial policies, whole life, 28,646; endowment 65, and at the end of the year there were industrial policies whole life 28,594 in force, and endowment 1,211. What had happened to the industrials during the year, as indicated in the next paragraph there had been terminated by death, 252; by surrender, 24; by lapse 23,229. You see those items? A.—Yes.

Q.—Again I ask you, having regard to the fact that there were only in force at the beginning of the year 24,190 industrial policies, what do you say as to the item "Lapsed 23,229"? Is that a natural condition of things in industrial insurance? A.—Well, I would scarcely like to say that it was natural for so long a time, why there should be so great a proportion of lapses after it had been in operation two or three years; still that is a question upon which only one who is engaged in the business would be qualified to give a thoroughly reliable opinion.

Q.—No, then, we have some further interesting information about these industrial policies in the last item of the return "Statement of number of policies and amount, in force in Canada on December 31st, 1904, as per ages grouped as under? A.—That is the item to which you refer for further information?

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Q.—Yes? A.—Well, they were asked to give that; it was asked of all companies doing industrial business.

Q.—They had a total in force of industrial policies at the end of the year of 28,711; of these 8,069 policies were upon lives five years of age and under? A.—Yes.

Q.—And 5,882 were upon lives between five and ten years? A.—Yes.

Q.—Leaving the difference upon lives ten years and over? A.—Yes.

Q.—Did you not require any further classification than that, and why that? A.—Oh, that classification has been required going back for several years past, and it grew out of a discussion with regard to child insurance that took place in the Senate, I think in about, possibly, I believe it was about 1894, quite a number of years at all events. There was at that time a great deal of discussion with regard to child insurance. It had been said that child insurance caused in many cases murder.

Q.—It was a subject that had engaged the attention of the Senate? A.—Yes.

Q.—Some years before? A.—Yes.

Q.—Immediately after the discussion in the Senate this was asked; it does not seem to have been given as far as the blue book discloses by this company until 1904; it does not appear in the half year's return at the end of 1902, or in the year's return at the end of 1903? A.—Possibly it may have been an oversight in not asking for the information from these companies.

Q.—I suppose no considerable portion of the ordinary life policies which is classified otherwise than as industrial is upon infant life? A.—I should think none of it whatever.

Q.—You would think the industrial insurance class is the class in which you would naturally find the infant insurance? A.—I should think so.

Q.—You are not, apparently, Mr. Fitzgerald, able to say why the requirement of the return does not rise above the ten years? A.—No, I cannot recall the reason for that. There is a provision in the Ontario Insurance Act with regard to child insurance.

Q.—There is a specific provision in the Ontario Insurance Act in regard to that? A.—Yes.

Q.—And there is a specific prohibition, I think? A.—There are certain limitations in that Act. I will procure a copy.

Q.—Will you also let me have a list of all the companies that are within the purview of this investigation which carry

on that class of insurance? A.—That industrial business, yes.

Q.—We will leave the 1904 matter, and come to the return made last December by this company. Are you able to say the company was still carrying on its business in the same way by the hand of the National Agency Company? A.—I think so, sir.

Q.—I find we have not that return here. I see that you have some other papers which you have brought here? A.—Yes, that will speak for itself.

Q.—This is upon the same subject we have just been dealing with? A.—Yes.

Q.—How did you come to have this? A.—Well, I did not like the look of this company's business. It appeared to be pretty unsatisfactory, and I did not seem to have any way of doing anything with it. The company was solvent and plenty of assets to cover its liabilities, with a considerable surplus. I went to Mr. Symons, who is the Manager and President of the National Agency Company, and went to see him on two or three occasions, and this is some of the material that I obtained from him in the interview. He furnished me with what you see there.

Q.—We will examine this a little. This printed document is a summary of proceedings at the annual and special general meeting of the shareholders of the National Agency Company, held on the 14th February, 1905. The date of that would seem to indicate that it was during the course of your inspection upon the return for 1904? A.—Yes.

Q.—The following report of the Board of Directors was adopted—(Reads report dated Toronto, Feb. 14th, 1904). Is the Equitable one of the companies you have control over? A.—I have never had control over it. It is a company that obtained a charter, but never yet contained a license.

Q.—This is what it says about the Century Life. (Reads.) Then comes the statement. (Statement read.)

Q.—Apparently they were not doing any business except the business of the Union Life Insurance Company? A.—I think that is the only business.

Q.—Then if the Union Life Insurance Company paid out for commissions and salaries and other expenses of officials \$157,000 odd, and the National paid out \$52,000, you get a total of \$209,000 or \$210,000 as the expense of this \$123,255 of premiums. Is that fair, or have you any observation to make as to that? A.—I may say I never very critically examined that company, because it was

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not a company I had any power to deal with, the National Agency.

Q.—Still you were investigating the affairs of the Union Life, and this was given you for your satisfaction? A.—Yes, to show the National Agency was prospering, and there will be further matters connected with that later.

Q.—I do not suppose you can offer me any explanation of that item of brokerage? A.—No, my knowledge of that transaction is this: that the Century Life had obtained a charter, the statute book will show exactly what it was, three years ago I should think, 1903; it may have been earlier.

MR. TILLEY. 1901.

WITNESS. Well, it had been renewed once before. In 1901 the company obtained its Act of Incorporation; two years ago it was really.

MR. SHEPLEY. Q.—That would be in 1903? A.—Yes, it was extended in 1903; then again it would lapse in 1905, and there was a further extension obtained last year; there was a further extension obtained in 1904. The 1903 extension was only for one year.

Q.—The Century Life had got an original Act of Incorporation, and it had two extensions? A.—Yes, certain sums had been paid.

Q.—You mean by the stockholders? A.—Yes, into the funds of that company.

Q.—I suppose they must have been paid in order to secure incorporation? A.—We generally find the promoters put up the necessary money to get the incorporation, and they get recouped afterwards, after the company goes into business. It is not necessary for anyone to have any money paid up in order to get a charter. There is nothing required. Then these persons who had paid up certain sums to this company by a deal that is mentioned there had transferred to them, instead of their stock in the Century Life, the same amount of stock in the National Agency.

Q.—The item of brokerage, including Century Life transfer, \$9,179; I was wondering whether there was any brokerage in respect of any of the transactions of the Union Life? A.—No, that would not be in respect of the transactions of the Union Life.

Q.—You would not judge it would be? A.—No.

Q.—Then there is interest and exchange on the other side of the account; that is on the expenditure side; \$3,432; salaries, etc., expenses, etc., organization expenses, written off, \$637.36; Western Assurance stock, etc. (Reads). I do not find in that statement of income and expenditure any reference

whatever to the \$115,000 that was paid into the coffers of the Union Life? A.—Apparently they have added that to their capital stock.

Q.—Making a liability under the head of capital stock which I suppose you have not checked at all? A.—No, I have not checked.

Q.—Of \$443,700? A.—They considered the amount to be paid over to the Union, including the premiums, as part of their assets.

Q.—Then the profit and loss account carried forward there last year, \$21,786, it brings in the balance from income account to \$41,025, and takes in a balance from commissions of \$1,528, making a total of \$54,340.29, against which are written dividends numbers 4 and 5, amounting to \$21,944.55, leaving a balance to the credit of profit and loss of \$32,395.74. Then there is a statement of assets and liabilities, capital stock of the National Agency—that is the company itself—\$443,700; capital stock Century Life in course of conversion, \$11,124.61. Debentures—that is the debentures, of course, of the National company itself—\$5,220; suspense \$2,756; current ledger balances Union Life \$10,706, and assets, stocks, bonds and securities, cost value \$387,395; would that include the stock—

Q.—That item includes not only the \$100,000, but the premiums as well. I think if added together they will be found to come very nearly to that sum.

Q.—There was \$70,000, \$100,000 and \$115,000 which had been paid into the Union Life on account of the stock of the Union Life without increasing the amount paid up upon that stock in the slightest degree, and yet you think in their statement of assets they include the Union stock, not at the \$100,000 paid up upon it, but the— A.—I understand that is it; they really have the Union stock paying a premium; for each \$100 of it they paid about \$400.

Q.—This is the inquiry you made on the return for 1904? A.—Yes.

Q.—There are deferred commissions which are called assets of \$28,973.40; that, I suppose, would be money coming from the Union Life to them? A.—Probably.

Q.—Then there is a balance of organization expenses of \$6,186.31; that is called an asset; what does that mean? A.—It is no good as an asset at all.

Q.—Due by shareholders in course of collection \$94,845.68. Due by Century Life shareholders in course of collection \$12,000; advance to agents \$736; suspense \$1,243; head office building, cost value, \$10,202; Bills Receivable, \$1,009; cash in the bank, \$13,833. Then

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this is a list of the shareholders of the National Agency Company alphabetically arranged? A.—As of 31st December, 1904.

Q.—Clergyman, widow, traveller, doctor, barrister, spinster, widow, farmer, clergyman, salesman, and so on, and these are the shareholders who are putting up the money which in these large sums finds its way into the Union Life? A.—Precisely. (Document filed, Ex. 50). There is a copy of letter from Mr. Harvey, the actuary, which should go in.

Q.—I shall add this to the exhibit to make it one exhibit; then you seem to have made some further inquiries extending into the month of June last still upon the business of 1894? A.—That was the time I was there.

Q.—I see on the 8th June Mr. Symons says—"I enclose you copy of letter." (Reads letter). Then you seem to have received at the same time a letter of the 9th of June, because the departmental stamp is the same, June 12th, in both instances? A.—Yes.

Q.—Then the report of the actuary, Charles Harvey, is dated Jersey City. In this copy it is 1905. In his letter he says it should be 1904. It is directed to Coleman Evans, Toronto. (Reads). "The agent's increased cost being 65 times, as against an average of over 100 times in other companies"; what is the meaning of that? A.—I do not know. I really do not understand it.

Q.—What books would he call the audit books? The books from which this return is made up? A.—He is not speaking of this return at all.

Q.—No, he is speaking of the Union Life? A.—Yes.

Q.—He is speaking of the company which is making this return? A.—Yes.

Q.—A return which for this year showed an expenditure of \$157,000 in getting net premiums of \$123,000; can you explain that? He has examined the audit books, he says? A.—It would be no doubt the lists of policies the premiums payable upon them, and everything of that kind.

Q.—And the salaries and commissions and other expenses of officials ought to be looked at, I suppose, to arrive at a conclusion upon that? A.—Yes.

Q.—I do not know what would be called an extremely low expenditure, and I do not know, of course, what Mr. Harvey saw, but would you as an insurance man agree with a statement that it was an extremely low expenditure to spend \$157,000 in salaries and

expenditures to secure \$123,000 of premiums? A.—No, I should not. I should think it was very large, but Mr. Harvey explains that in consequence of the nature of the business it is very difficult to get a company of that sort organized; the amount of expenditure in employing agents and that sort of thing is very large, and that is supposed to be the opinion of a qualified man on the subject, acquainted with the business.

Q.—You cannot explain the statement "The agent's increased cost being about 65 times as against an average of over 100 times in other companies"? A.—No, I cannot.

Q.—Did you ever see one of those guarantee agreements he refers to? A.—No.

Q.—What does the purchase of new business mean? A.—Writing new business.

Q.—Did that end the enquiry that you made as the result of the return of 1904? A.—That was the enquiry.

Q.—Then at the end of 1905 a return was again made by the Union Life Assurance Company, same President, same Secretary, same authorized capital, a million dollars, same subscribed capital of a million dollars, same amount paid up in cash, \$100,000; you have a duplicate there? A.—I have a duplicate.

Q.—List of directors, Evans, Symons, Curry, Millichamp, Jones and Hughes; and Charles Harvey? A.—Yes.

Q.—Then you have securities which have gone from \$109,000 at the end of the previous year to \$196,000 at the end of 1905. That seems to be right, does it? A.—The amount shown here is—that is the amount of investments—\$169,328.87.

Q.—What is the Sun Savings? A.—That is a loan company.

Q.—Where is the Reliance Loan? A.—Toronto.

Q.—The People's Building Loan, the Canadian Birkbeck. We won't go into those just now. Then you have the amount held by the North American Life this year raised to \$18,735.33? A.—Yes.

Q.—This is described here as cash held by the North American Life Insurance Company in trust; that is probably hardly accurate; it is held as an indemnity against the liability? A.—Yes, the same as the year before.

Q.—The assets "Value of real estate \$24,125, cash in banks with details \$21,286. Then among the liabilities the reserve is the first item \$108,000, gen-

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eral expenses \$5,602; how does that come in? A.—It is a balance due on account of general expenses.

Q.—Due on account of loans, \$657, etc. Surplus on policyholders account \$112,041.10. That is a little growth from the surplus shown by the previous year? A.—Yes.

Q.—I see this company makes a note here that it calculates upon the tables for its reserve, but it calculates at three per cent.? A.—So it shows here. It is the O. M. table. It is a new table.

Q.—Are you familiar with the work of that sufficiently to say whether that makes a substantial difference? A.—No, I am not. It is a new table lately published. I do not think it has got into general use in Canada yet.

Q.—Then we have rather more detail in this than we get in the preceding blue books, although I daresay it was in detail in the statements from which the blue books were compiled. There is an item of salaries here \$27,956.76. Was the company doing all its business through the National Agency during 1905? A.—So far as I know.

Q.—What were these gentlemen doing for their salaries, \$28,000 of salaries? Can you suggest anything they were doing? A.—No.

Q.—How was the business of the two companies being carried on? Was it the same staff? A.—The head office staff is quite small in each case, as far as one can see from those that were in there.

Q.—Was it a joint staff? In the first place were the two companies situated in the same office? A.—They are in the same building.

Q.—In the same office, or separate suites of offices? A.—No; one of them is upstairs and the other is down, as I remember it. The National Agency is in the upper portion of the building and the Union Life in the lower portion.

Q.—That does not seem unnatural? A.—It is a building on Adelaide street nearly opposite the old court house; that is where the building is.

Q.—Is the National Agency equipped with a staff to run insurance business as agent? A.—Oh, of course it must be. The National Agency must employ agents to do the work, and through all sections of the country they must have their sub-agents, the agent being the National Agency and the others the sub-agents throughout; of course the duties of the manager would be to look after the appointment of these agents.

Q.—That is, the manager of the National Agency Company? A.—Yes.

Q.—I can see a vast and varied field of labor for him. I want to see where we can think of a field of labor for the officials of the Union Life Assurance Company. They are receiving, in the first place, in that head office salaries to the extent of \$27,956, and travelling expenses to the tune of \$6,708? A.—I am unable to explain what they do for it.

Q.—Then there are directors' fees besides \$895; the actuary gets \$494.10, the auditors \$325, and commissions are paid—I suppose from what you have told me those commissions would go to the National Agency? A.—Yes.

Q.—\$147,000 odd? A.—They would go to the National Agency.

Q.—I can imagine the man who has to earn \$147,000 having a large and substantial staff, but I want to find out if you can suggest to me what is being done to earn \$28,000, plus these travelling expenses by the people who are running the Union Life Assurance Society? A.—At present I cannot suggest what is done to earn the money.

Q.—I think when we come this afternoon I will ask you to bring the return for the preceding years of this company, because if there is anything like that detail, I want to compare it? A.—I know what you mean.

Q.—When we come to the other head of expenditures, "All other expenses in detail" we have first "Interest in exchange, \$216.19; telephone, rent, expenses, \$7,096.67; advertising, printing and supplies, \$10,165.38; that sounds like a pretty large sum for a company which has handed over the whole of its operations to an agency. Can you make any suggestion about that? A.—As to the advertising, printing and supplies, it seems large, certainly, but at present I do not know just what portion of the expenses is borne by one company and by the other, because ultimately it makes really no difference which pays it, because the National Agency owns the Union Life, and it does not really make any difference which pays it.

Q.—It might make a difference to the shareholders of the National Agency, who are, as you have told me long ago, speaking practically, the public? A.—Yes.

Q.—But with the National Agency it is, of course, taking out of one pocket and putting into the other? A.—Yes.

Q.—I am at a loss to understand, and I want your explanation, if you can suggest why such an item as that \$10,165 for advertising, printing and supplies should occur in the Union Life Company's books, when the Union Life Com-

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pany has practically handed over the whole of its operations to the National Agency? A.—Well, has it, in a sense, handed over the whole of its operations? It has only handed over in the same sense that an ordinary company hands over to its different agents there is one agent appointed, and the literature and everything of that kind would still be printed by the life company, and I don't know, it looks a considerable sum, but these companies put out an enormous amount of literature of various kinds, circulars and everything of that kind.

Q.—You have not made your examination of this company's affairs upon this return? A.—No, none.

Q.—Had you examined this return before you were examined to-day about it? A.—No, I had not seen it as a matter of fact.

Q.—Do the figures which I have called to your attention, salaries, travelling expenses, commissions, and the advertising, printing and supplies that I have spoken of, present a field for legitimate inquiry in your department? A.—They should be inquired into now.

Q.—Then you have an item, medical and legal fees, \$11,085.98. How does that strike you, having regard to the volume of business which this report shows? A.—It is a large sum for the amount of business they have actually secured.

Q.—I see that in your blue book you take this second heading and print it in detail; that is, all other expenses, but "commissions, salaries and other expenses" you put in a lump sum; is there any reason for making that distinction in the blue book? A.—Well, there is just one item in the blue book.

Q.—You do not separate that item in the blue book, but you separate "All other expenses" in detail, into the expenses shown in detail? A.—Yes.

Q.—Is there any reason for that? A.—The reason is that it is called for in that form by the schedule to the Act.

Q.—You could modify the schedule if you thought it proper and convenient? A.—Yes, it could be done, but it would increase the volume enormously to get the details of that year.

Q.—We come now to income and expenditure during 1905. "Cash received for premiums" \$168,696.06; premiums paid to other companies for reinsurance \$1,455.05, or a balance of net premium income \$167,241.01. Then amount received for interest or dividends on stock \$7,455.92. Then I see our old friend "Received for premium on capital \$140,000"? A.—Yes.

Q.—You have not investigated this, but is there any doubt that is the same

as the similar items in the previous returns? A.—I have no doubt.

Q.—That makes a total of income of \$314,696.03, counting the premium as income. Let us see about the expenditure; \$26,603.45 paid for death losses; \$250.40 for surrendered policies, or a total of \$26,883.85 paid to policyholders. There is no carrying out of the item of cash paid to stockholders for interest or dividends? A.—This company has paid no dividends. The National Agency has paid the dividends.

Q.—The National Agency Company has been paying the dividends? A.—Yes.

Q.—And I think we have agreed on the identity of the directorate of this company with that of the National Agency? A.—Yes.

Q.—Cash paid for commissions, salaries and other expenses of officials, \$183,597.55, as we have seen before, and other expenses, making a total of \$246,409.14, from which we may deduct \$26,883.85 paid to policyholders, and we get an expenditure of about \$200,000 for the realization of \$167,000 of premiums? A.—Yes.

Q.—Under the head "Miscellaneous, the number of new policies reported during the year as taken 37,351, 42,779 policies in force at the end of the year; no life annuities. Total number of industrial policies in force at the end of the year 41,824, of which 11,412 in number are upon infants of five years and under; do you see that? A.—Yes.

Q.—And 8,128 are upon infants between five and ten years of age? A.—Yes.

Q.—They have paid during the year in respect of the death of infants five years and under the large amount of \$3,457.60, and in respect of infants between the ages of five and ten \$1,181? A.—Yes.

Q.—Then the termination of policies during 1905 appears to be as follows: there has been only, apparently, one death; am I right in that? A.—That is in the ordinary class.

Q.—To the extent of \$1,000? A.—Yes.

Q.—All the other deaths to the number of 394 have taken place in the industrial class? A.—Yes.

Q.—Then there has been a lapse in the industrial class of 24,045 whole life policies, and of 292 endowment policies. Would you express an opinion as to that proportion? A.—The whole life policies, 24,045, it seems to be a very large number of lapses.

Q.—What is the consequence of a large number of lapses from an insurance

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standpoint? A.—Well, it may be caused by the misrepresentations made by agents to the policyholders. A policyholder might receive a wrong idea of what his rights and so on are, and he may ultimately decide to let the policy drop. That would be one cause. Another reason would probably be—and particularly in this class of business—the class of people dealt with.

Q.—That would account for a large normal lapse? A.—Yes.

Q.—But I am speaking of an abnormal lapse—a lapse abnormally large? A.—Well, I do not know that I could specify any thing that would really cause an abnormal lapse. In this kind of business it is very imperfectly understood by anybody except those actually engaged in it.

Q.—Can you leave a copy of this return with us as an exhibit? A.—We can let you have one copy and retain the other. (Exhibit 51.)

MR. SHEPLEY. After luncheon I will want to look a little more into the details of the returns of the previous year made by this company.

(Adjourned for one hour.)

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AFTERNOON SESSION.

Examination of Mr. Fitzgerald (continued).

MR. SHEPLEY. Then it would seem, Mr. Fitzgerald, in the annual statement at the end of 1902, there was not the detail given at all of these salaries, commissions and other expenses? A.—You mean it was not furnished in the statement?

Q.—Yes, there is just the total in the expenditure statement of the \$61,000 odd for that item, but no details of it anywhere that I can see. There does not seem to be any detail of the salaries and commissions in the return for 1902? A.—No.

Q.—The same applies to 1903, there is only the gross item on that account, \$130,597.37 and no details of it at all? A.—No.

Q.—In 1904 there is detail. Let me take 1905 as a comparison. In 1904 the return shows, "Head office salaries \$19,301.81 as against \$27,956.76 in 1905. An increase of over \$8,000 in head office salaries (reads to end of statement). Those are the only two years in which you have any details of that item? A.—Yes, the statement does not call for it. The detail is not called for by the statement nor by the Act.

Q.—Then I will have the return for 1904 put in as Exhibit 52 on this branch of the inquiry. I suppose there is not any practical reason why the same detail might not be insisted upon in all cases as we find in this case during the last few years? A.—I do not know any reason why it should not be insisted upon. I think my rule was when I did that part of the work, when I did any of the inspecting, I used to get the details and put them upon the blank myself. At least I very often did that.

Q.—You got the details from the books of the company during your inspection? A.—Yes, and in that way showed how the item was verified.

Q.—In that way you would be able to say whether there had been any extraordinary or unexplained growth in that item? A.—Yes, it would be possible in that way.

Q.—What do you find to be the provisions of the law in Ontario about this infant insurance? A.—It is contained in section 150 of the Ontario Insurance Act. The first clause is (reads) that is as to insurable interest. Then the second clause is (reads).

Q.—The restriction then runs from two years of age up to ten years of age? A.—Yes.

Q.—And the restriction is as to the total amount of insurance from all sources? A.—From all corporations.

Q.—From all corporations upon the particular life? A.—There is a proviso. (Reads proviso). That provides for insurance in force in 1892.

Q.—That did not affect pre-existing contracts of insurance? A.—No.

Q.—But it restricted the possibility of infant insurance as the statute directs, including insurance from any number of insurers? A.—Yes.

Q.—In other words, if there were two or three or five or six companies insuring the same life in the case of a child of two years of age, the total of all the policies must not exceed \$32.00 I think, is the sum? A.—Yes, \$32.00 for two years of age.

Q.—And so on. Perhaps you have not had time yet to get me the list of the companies that engage in infant insurance? A.—Yes, I have that. Here it is. The London Life Insurance Co. The Metropolitan Insurance Company. The Excelsior Insurance Company. So-called monthly policies, the Excelsior. The North American Life Insurance Company does no new business in this line. Policies taken over by the Union Life The Sun Life Insurance Company, what is called its thrift business. And the

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Union Life Insurance Company. These are the companies.

Q.—You say the North American is doing no new business in that? A.—No new business.

Q.—Its business having been taken over you say? A.—By the Union Life.

Q.—Have you in the department any correspondence or other records upon the subject of infant insurance, with the companies or otherwise? A.—I don't remember that we have. There may be a few letters between the Department and the Metropolitan, but I am not even sure of that.

Q.—You will have them looked up for us? A.—If there are any.

Q.—And see if there is any record of any kind in the department upon that subject. Does your inspection at all enable you to say whether in the case of the companies that do that sort of business the statutory limit has been exceeded in any way? A.—Well, as far as I am personally concerned, I have never made an examination as to that, for the reason principally, that I have not been doing that kind of work at all lately, but even if I were doing it, I don't think it is a question that I could inquire into, for this reason: you might find that a company had insured within the limit, but there is nothing to show, and you have no means of ascertaining whether that same child was not insured by another company.

Q.—Quite so, but your investigation might ascertain whether or not the limit was exceeded in the insurance contracts of any particular company? A.—It might.

Q.—Then, are you able to say at all, having regard to these industrial policies of all ages, what the average amount insured is? A.—The average amount of each policy? —

Q.—Take the Union Life policies for instance. There is the prohibition in the case of the infants and we know what proportion the infant policies bear to the whole of the industrial group in a particular company. Would that at all enable you to express an idea as to the average? A.—I think probably, there is sufficient data there by knowing the number of policies and the total amount, by dividing one into the other. I think that might be ascertainable.

Q.—The average upon that basis I should take it, would be somewhat under \$100.00 rather than over? A.—Yes, I think it would.

Q.—Speaking, of course, of the industrial policies issued at all ages? A.—At all ages. Mr. Grant tells me that in the Metropolitan, the average would be

about \$80.00. That is the company that does the largest industrial insurance business.

Q.—And probably it is not unfair, for the time being, and for the purpose of a general view of the subject, to assume that the average would be about the same in other cases? A.—Probably that would be so.

Q.—Now, there was a question that we were discussing yesterday, and you were good enough to say that you would make a rather more careful statement upon the subject than you cared to do offhand, with respect to the strength of your staff. Have you been able to do that? A.—I have not been able to touch that question.

Q.—I should, perhaps, have asked you another question upon that subject yesterday. With the views that you have expressed with respect to the responsibility resting upon you and your staff and the amount of work you have to perform, and the insufficiency of the present staff, have you made application for an increase of the staff at all? A.—Do you mean lately?

Q.—Yes. A.—Well, the report that was read yesterday.

Q.—That is very recently? A.—Yes, there is nothing since then.

Q.—Up to the time of that report of Mr. Blackadar's? A.—It is a subject that was being very frequently spoken of between myself and the Minister, but I do not think on any occasion I ever made a written application.

Q.—Do you have in your mind the mental impression that you have been refused any assistance which you required? A.—I don't think so. I don't think I ever have been refused. No, I would not say that at all. Of course, now upon that question of what is a sufficient staff, that will depend upon circumstances. For the work which we have been doing and which, I think, is all we were authorized to do under the Act—it will be a smaller staff than would be necessary if we are supposed to do certain other work that possibly may have been indicated by the examination that is being conducted. For instance we have been asked if all the policy loans were examined; well, they have not been and we have supposed that the examination that has been made is sufficient, and that it would be necessary to examine every policy loan. Now, if we are to understand that that is to be done, it will take a good deal larger staff, and so with everything else.

Q.—It is easy to generalize; I suppose you would say that the staff ought to be increased with the increase of the

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duties that are cast upon it in the course of the administration of the Act? A.—Yes.

Q.—And I suppose, too, your staff may be smaller if it is individually more efficient? A.—Undoubtedly so.

Q.—A compact, efficient staff is better than a larger and less efficient staff? A.—Yes.

Q.—Are these considerations which have taken up your attention from time to time in the administration of your Department? A.—Well, I have always been anxious to get thoroughly good men. I would rather have two or three or four really good men than nearly double the number that were not qualified or indifferently qualified.

Q.—You have from time to time taken up your position upon the statute as to the scope of the work of your Department? A.—Yes, I have.

Q.—Exercising in each case your judgment upon the construction of the statute? A.—Yes.

Q.—And your staff has been more or less accommodated to that view? A.—To a large extent, yes.

Q.—Then I take up next a matter arising out of the return made by the Federal Life Insurance Company for the year 1903. This is a book, as I understand it, which contains the returns in bound form, with any correspondence bearing upon it? A.—Bearing particularly upon it.

Q.—I do not like to mutilate the book at all. We can understand that the book is in for the purpose of the particular documents that are referred to. I see that on the 14th of June, 1904, Mr. Blackadar made a report or a memorandum on his examination of the Federal. We will take that up just as it is in the book. "Memorandum on the examination of the Federal Life Insurance Co." (afterwards marked Exhibit 53.) (Reads from "The market values of certain bonds" to "ascertained cost price.") We will check that in the returns. When we look at the return we find, "Sao Paulo Tramway Co." under the head "par value \$25,000" and under the head "market value \$29,241.18." These are the first two figures that I have read from the report of Mr. Blackadar. The ascertained cost price he puts at \$22,631.85 (continues reading memorandum to "Is there any impropriety in a loan made in this way to an officer of the company.") The first matter then dealt with is a matter of the writing up so to speak of the cost of the three securities named so as to represent a

valuation upon which 4 per cent. should be realized, making a difference of \$21,278 above the cost price. The second inquiry is with regard to the difference between the cost of the Hudson Bay stock and the par and market value, and a query whether that is a class of security in which the company had a right to invest. And the third query is as to the loan to the President of the company. Then you received a letter from Mr. Dexter on the 11th of June, which is part of this group of papers. It is addressed to you (reads this letter). Then on the 16th of June you wrote to Mr. Dexter? A.—Yes.

Q.—And this is the letter. (Reads from beginning to "in the direction of leniency.") Were the corrected value put in the return? A.—I think so. That is my recollection of it.

Q.—I see that in the case of the Sao Paulo the pen has been drawn through the market value, and it has been reduced to the figure which Mr. Blackadar gives. So with the rolling stock bonds and so with the Montreal Light, Heat & Power Co. bonds. In every instance the correction has been made. And the blue book is printed from the corrected returns? A.—Yes.

Q.—Then you proceed, "I observe also in your assets an item, Hudson Bay Co.'s stock." (Reads to "I shall be glad to hear from you at your earliest convenience.") Then you received a letter from him written on the 17th of June, on which I see, I think in your handwriting, a pencil memorandum "No answer required." A.—Yes.

Q.—(Reads from beginning to "We prefer to retain them.") He says "I think I had some conversation with you last year." Do you remember about that? A.—I think it is quite likely.

Q.—Do you remember the conversation? A.—No, I would not say that I remember it precisely, but I do remember having a conversation with him about the value of these securities upon a 4 per cent. basis. I remember that very distinctly.

Q.—That is prior to the time of this return? A.—No, it would be after that return and in connection with that return.

Q.—He is speaking here of a conversation last year, that would be in 1903? A.—Yes, well, it is quite possible. I don't recall the conversation at the present time.

Q.—He does not give what the gist of the conversation was or what impression he carried away from it, just sim-

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ply says "I think I had some conversation with you last year in reference to these shares." Then he goes on to say, "We were aware when we purchased them that we were not technically authorized to do so." Do you remember whether there was any discussion of that the year before in the conversation which he says you had? A.—Putting my memory together with what is contained in the letter, I have very little doubt that I spoke to him on the subject and told him that as far as I could see they had no right to hold those particular securities.

Q.—Then he says, "If you wish us to do so, we can sell the shares without any loss, but we prefer to retain them." What about that? A.—Well, as you observe, I did not answer the letter. I thought it was a matter which he must deal with himself. I have taken the position that I have no right to ask a company to dispose of securities that are not in accordance with the Act, but I have told them wherever the question has come up, that in the event of a loss they are personally liable for them.

Q.—And I think we have had instances, or an instance, in which you brought pressure to bear in the case of unauthorized investments where there had been a loss? With the result that the loss was made good? A.—The loss was made good. Just here I may mention that I think that Hudson Bay stock has been sold by the company and sold at a profit, as I understand.

Q.—Did it appear in the return for 1904 or was it after that it was sold out? Referring to the return for that year, it would seem that the Hudson Bay stock still appeared, the par value being \$9,730 and the market value placed at \$50,596. A.—The report for 1904 is published in the following year.

Q.—I see that in 1903 they had \$12,662 of this stock at par; in 1904 they had \$9,730, and whereas the market value was alleged to be in the return for 1903, \$37,740.50 for the whole \$12,000, the market value is alleged in the return for 1904 to be \$50,596 for the \$9,730. Then this is the return for 1905 and apparently the Hudson Bay stock has disappeared and in the income account is "Profits from sale of securities \$22,515.49 which would include whatever profit was made out of the Hudson Bay stock? A.—Yes.

Q.—Then the last clause of his letter refers to the loan, "Re Bank of Hamilton stock." (Reads to "I shall, however, immediately dispose of it.") Can you tell by reference to the return for 1904 whether that Bank of Hamilton stock had been got rid of before the

next return? 84 shares, loan of \$11,000, since increased to \$16,000. A.—It appears here in the return for 1904.

Q.—Do you remember whether you had any correspondence upon the subject after the return for 1904, finding that stock still standing there as security for this loan to the President? A.—I don't remember any correspondence about it.

Q.—Then is it found in the return for last year, 1905? A.—It has disappeared, it does not appear now.

Q.—Is there any indication to be gleaned from the return of 1905 as to whether that was replaced by other securities or whether the loan disappears? A.—There is nothing to show in this statement, because it does not give the name of the borrower. It gives the securities and the amount of the loan.

Q.—The papers I have referred to in connection with the return for 1903 of the Federal Life and the return for that year will be an exhibit (No. 52), and they are embraced in this book.

Then Mr. Fitzgerald desires to say that since I asked him about the average amount of an industrial policy, Mr. Grant has made a computation and taking the case of the two companies, the London Life and the Metropolitan Life, there is a difference between the two, the London Life having an average of \$83.00 as stated before and the Metropolitan Life somewhat larger, \$120.00? A.—Yes, I would prefer to say that the general average would perhaps be in the vicinity of \$100.00.

Q.—Now I propose to ask you some questions with respect to certain reports which Mr. Blackadar has already deposed to, and as to which he has given his account. In some instances he has left certain inquiries which he has said he would prefer to have you make an answer to. I do not know that I shall confine myself at all to the matters that he has left open. I shall, perhaps, want in a good many instances to have your independent opinion. I take Exhibit 19: this is a group of papers including and accompanying a report of Mr. Blackadar's of the 13th of February of this year in the case of the North American Life. His first paragraph is "Investments in securities other than Canadian." Then he has a list of seven mortgage loans, all apparently upon property in St. Paul, aggregating \$118,901.72. Then he has a list of bonds of United States corporations. (Reads to "loans in foreign countries.") Taking that subject up by itself, did you deal with that? A.—I wrote Mr. Goldman a letter regarding the securities outside Canada.

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Q.—That letter is dated the 14th of February. (Reads this letter.) What is your view as to your power in respect of an excess of investments in foreign securities? A.—I am of the opinion that I have no power to do anything with the company. I can just notify, as I have done there, call the attention of the parties to it, but beyond that there is nothing as far as I can see under the statute that I can do.

Q.—You look upon your hands as being tied in that respect? A.—I do.

Q.—Well, then, Mr. Blackadar, in the second paragraph of his memorandum says that there are certain assets not included in the statement as returned. (Reads from "A Chicago & Milwaukee Electric Railway stock," to "I have added these to the statement to be published in the insurance report should it be hereafter so decided.") Was it in fact so published? A.—That is this present year. It will be published later.

Q.—Is it to be published? A.—I think it will be published.

Q.—When Mr. Blackadar was in the box, my learned friend Mr. Hellmuth, called his attention to a clause in the form of return and I want to ask you about that. Is your statement intended to elicit from the company a complete list of its assets? A.—Well, up to quite recently I had not fully made up my mind upon that point. Looking at the schedule and the form of the affidavit, it appeared to me not inconsistent with it that the company should keep some assets that were not inserted if any good reason appeared for that. Recently, however, I have submitted the question to the Department of Justice and have had a reply. I do not know whether that question and reply has been put in.

Q.—I do not think so. A.—I do not at the moment recall, although I am quite subject to be corrected.

MR. HELLMUTH. I am quite sure it is not in. A.—I know the documents have been copied.

MR. SHEPLEY. Then, when you say "up to a short time ago," we can get the date accurately when we get your correspondence with the Department of Justice. Speaking approximately, up to what time have you been of the opinion that companies might withhold from their annual return some of their assets? A.—Until I got the opinion from the Department of Justice, I could not say that I had formed an absolutely definite view with regard to it.

Q.—You cannot say you had up to that date? A.—No.

Q.—I understood you to say when I asked you first, that you had been rather of the opinion—I take it from your answer, that your opinion rather inclined to the view that the company might without objection seclude from disclosure in their returns some of their assets? A.—That it might be so construed; that is the effect of it.

Q.—You now say you do not profess to have arrived at a decisive opinion upon the subject one way or the other? A.—I think my view now is decided.

Q.—I mean up to the time of this? A.—Up to that time.

Q.—And about when was that? A.—It was about probably some time in February of this year.

Q.—You know there is a pretty exhaustive statement of assets in the schedule which is settled by the Treasury Board. 1st. The value of the real estate held by the company. Detailed statement to be given in a separate schedule. That would look as though it would include everything in the nature of real estate? A.—Read alone, possibly so, but reading it in connection with the affidavit I think it might possibly be capable of the other construction. All that the affidavit reads is that they are the owners of the assets hereinbefore mentioned. That would not be inconsistent with their having something else that for some reason or other they did not see fit to disclose.

Q.—This is the affidavit to be made by the President and the Secretary: (Reads from beginning to end "are a full and correct exhibit of all the liabilities, income and expenditure and of the general conditions and affairs of the said company?" A.—What I called attention to is that in the case of the liabilities, it says all the liabilities; in the case of the assets it does not say so.

Q.—It says, are a full and correct exhibit not only of all the assets but of the general condition and affairs of the company? A.—Well, possibly my construction may have been wrong, taking in that last clause.

Q.—You speak now of your construction; you spoke of it a moment ago as being possibly open to that construction? A.—Yes.

Q.—And I understand that you do not profess to have formed a definite and decisive view upon the subject? A.—I did not until I got the opinion of the Department of Justice. Up to that time.

Q.—Then you know the last item in the enumeration is, "all other ledger assets"? A.—Yes, I admit that that is there.

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Q.—And I suppose any assets shown in the ledger, upon a reasonable construction of that, might be supposed to find themselves in the statement, the return? A.—Naturally so.

Q.—One would perhaps suppose, but for the way in which interests arise, which are different from what may be expected, that it would be always to the interest of the company to make as good a showing as possible? A.—It would, that is the ordinary condition.

Q.—And the ordinary motives which influence men would bring about a complete statement of all the assets? A.—Yes.

Q.—We have found during this investigation that that is not so in some cases? A.—Yes, in this one case for instance, what has been spoken of in the press as “silent assets.”

Q.—Then my learned friend very kindly calls my attention to this fifteenth, under the head of other assets; I do not want to take up too much time over it, and it is not for me to express an opinion, but I think I am bound to press upon you the terms of the affidavit itself, “a full and correct exhibit of the general conditions and affairs of the said company.” You do not of course get a full exhibit of all the affairs of the company unless you have what are called silent assets exhibited as well as all other assets? A.—That will of course be hereafter the construction put upon it, there is no question about that.

Q.—And that is by virtue of the opinion of the Department of Justice? A.—Yes.

Q.—Well, then, that being the opinion of the department, I suppose what Mr. Blackadar has said here will stand; “I have added this to the statement to be published in the insurance report, should it be hereafter so decided”? A.—Yes.

Q.—(Reads from “Two small blocks of securities were sold during the year” to “I attach herewith Mr. Galley’s certificate of the valuation.”) Then comes a statement of the real estate with a valuation by Mr. Galley amounting to \$213,417. Then we come to his reply to your letter to him, which only dealt with the excess of the assets represented by foreign investments over the amount provided by the statutes. We will see how he dealt with that. He writes on the 3rd of March. (Reads from beginning to “say more respecting the same.”) What do you say as to the observations of Mr. Goldman so far as I have gone through them? A.—

Well, I don’t think his position is tenable at all.

Q.—What do you understand him to mean when he says “The loans made upon United States securities are not lent out of Canada”? A.—He thinks, as I understand that letter, that it is quite proper for a company to loan upon foreign securities if the loan is made in Canada.

Q.—That is to a Canadian borrower? A.—Yes.

Q.—Or if the property is purchased, would that extend do you suppose in his view to where property is purchased from a Canadian, when foreign securities are purchased from a Canadian vendor? A.—I don’t think that is what he refers to because probably the case did not come up at all. I don’t know what his view would be in a case of that kind.

Q.—He says “The loans made upon United States securities which amount to \$277,300”—that is paragraph C of paragraph 1 of Mr. Blackadar’s report upon Mackay’s preferred and common and on the Chicago & Milwaukee Electric—that he says is not loaned out of Canada. Does the name of the borrower appear in the return? A.—It does not.

Q.—He says “Is not loaned out of Canada and therefore in our opinion does not come under sections 3, 4, 5 and 6, and then he says the loans are upon call and have been paid off. What do you say with respect to that? A.—The allegation is that it is paid off with the exception of \$6,000, and he thinks that sets the matter right. I suppose it is remedied as far as it can be to that extent, if the loan is paid off. Q.—Is that any excuse in your view? A.—It is no excuse.

Q.—For investing in unauthorized securities? A.—I think it is none whatever.

Q.—“The small balance is held as collateral to the Winnipeg Electric loan and will be taken up immediately.” I suppose the same will apply to that. “The deposit in New York is in Canadian securities and therefore cannot be construed as a foreign investment.” It seems to me Mr. Goldman is taking an opposite view perhaps from what he took in the preceding paragraph. What do you say to that? A.—That comes under another clause. It is deposited or loaned outside of Canada.

Q.—And the foreign deposit has to be counted, not because it is a foreign investment, but because it is a foreign de-

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posit? A.—Because it is a foreign deposit. He might very well put foreign securities there and bring the Canadian securities back to Canada, and it would better his condition to that extent.

Q.—“You call attention to the fact of the amount of bonds of United States corporations owned by this company.” (Reads to “for the maintenance of a foreign branch.”) Perhaps you had better have the statute before you, Mr. Fitzgerald. My learned friend Mr. Smith tells me that the word deposit is not in the section referred to. Will you look at that first? A.—The clause is number 6. The words of it are, “But in such event the total amount so invested or leant outside of Canada.” The word deposited is not contained in that last clause. In clause 5 the words are, “Leant, invested or deposited.” The wording is a little different between clauses 5 and 6. In the clause referring to the Sun to which Mr. Smith referred the words are “Invested or leant outside of Canada.” There is a communication from Mr. Macaulay on that subject.

Q.—That is in connection with the Sun Life? A.—Yes, in which he lays stress upon that. I think this was mentioned a few days ago, and the view I then expressed I think is, as I understand it, that it may be a debatable point whether he is not right there in view of the difference between the different clauses.

Q.—Does that apply to the company we are discussing? A.—No, I think it does not.

Q.—Why? A.—The North American does not do business in Great Britain. The Sun Life does do business there; and so the Sun comes directly within that clause 6; the North American does not. I think that is the distinction.

Q.—The North American would be under section 4? A.—Yes.

Q.—Then I will not pause to argue the meaning of section 6 as applied to the Sun, because we will have a further opportunity of discussing that when Mr. Smith will not be under any restriction at all as to arguing it fully. In any case you say section 6 would not apply to the North American Life? A.—I think it could not.

Q.—Leaving the point Mr. Smith has spoken of, let us get on to the next. He says “We have been advised that we have authority to make United States investments.” (Reads to “Not required by the law of that State if it be deemed desirable.”) What do you say as to

that? A.—I think that position is wrong also.

Q.—Why, with reference to the statute? A.—“Provided that when such investment.” (Reads to “Shall not exceed \$100,000.”) That appears to apply to a case where no deposit is required at all and in that case it is legitimate for them to have \$100,000, but all such deposits as that come in in the computation that the total amount shall not exceed the reserve plus 10 per cent. on the business outside of Canada.

Q.—Under section 3, where they are not required to make a deposit in the foreign country they are entitled to invest to the extent of \$100,000? A.—Yes.

Q.—Then under section 4 where they do business in the United States and have to maintain or desire to maintain foreign investment, they can go up to the 10 per cent. above their reserve, including any sum invested or deposited under the 3rd section? A.—Yes, the total amount including that \$100,000.

Q.—And including any deposit that may have been made according to the laws of the country? A.—Yes.

Q.—Must not exceed the reserve plus the 10 per cent.? A.—Yes.

Q.—That is your view of the statute and you say that this contention in that respect is in your view erroneous? A.—Yes, Mr. Goldman's contention.

Q.—Then he says “As we are authorized to transact business in five other States besides that of New York.” He would appear to justify investments to the amount of \$869,969. How does he get that? A.—By adding \$100,000 for each State.

Q.—To \$369,000? A.—Yes.

Q.—Do you agree with that? A.—I don't think so.

Q.—It necessarily follows that you cannot agree to it if what you have already said is correct with regard to the other. Then perhaps it is too early to look for this in view of your other occupations in the meantime. Have you taken this up since? A.—I have not.

Q.—His letter was only on the 3rd of March and it has not yet been taken up. You are now, however, fortified with the opinion of the Department of Justice upon the one question? A.—Yes.

Q.—Then have you an opinion upon the other question which Mr. Goldman raises, the construction of these sections? A.—No.

Q.—Do you feel clear about that yourself? A.—Sufficiently clear so that I

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would not have thought of referring to the Department of Justice.

Q.—Then I will take up a short matter (Exhibit 28). On the 14th of June, 1904, after an examination into the affairs of the Home Life Association made by Mr. Blackadar he made a report or memorandum headed "Memo. on the examination of the Home Life Association of Canada." (Reads from "First" to "Mr. A. J. Patterson.") Is that the gentleman whose cheque was given? A.—The same gentleman.

Q.—"And Mr. James W. Curry, K.C., a director." (Reads to "due the company by the directors.") Apparently after Mr. Blackadar had consulted with you, that particular item was dealt with by the Department? A.—Yes.

Q.—The return was rectified? A.—Yes.

Q.—And I think was rectified before publication? A.—Yes, before publication.

Q.—In that case apparently you had the remedy in your own hands, you took the law into your own hands and set it right? A.—Just so. No exception was taken of it.

Q.—If exception had been taken to it, what would have been your attitude? A.—I think I should have felt inclined to do it any way whether exception had been taken to it or not and take the risk of its being objected to. Still there would be something in favor of allowing it to remain as it was.

Q.—When you say something in favor, you mean, having regard to your powers? A.—Yes.

Q.—I would like, if possible, that you would make that as clear to us as you can. Do you feel that you were straining your powers at all in insisting upon altering the return for publication? A.—Well, I think perhaps I was, as I think I have explained. As I take it, I have no power to compel them to dispose of securities that are not under the Act. If they return them there I do not know that I have any authority to do anything with them but publish it.

Q.—What you did here seems to have been effective? A.—Yes.

Q.—How did that appear, or did it appear in the return at the end of 1904? A.—The previous year do you mean?

Q.—No, the following year; you say this was the return for 1903 that Mr. Blackadar had been investigating, and what you did with that or what he did with it after consultation with you was to charge the directors and put that in as an asset not by way of unauthorized security, but by way of debt of the directors. What did the company do when it made its return at the end of

1904, because what Mr. Blackadar had done was done during the summer of 1904 in respect of the previous year's return? A.—It does not appear to be there.

Q.—Not as a debt of the directors nor as an unauthorized investment? A.—The item that Mr. Blackadar points me to is, "\$166.25, amount written off ledger value of bonds." I do not know just how that arises.

Q.—That may not refer to this, because that does not at all agree with the item that was charged to the directors in the return. Does Mr. Blackadar say that is in connection with this? A.—Yes, he tells me that it is.

Q.—Perhaps Mr. Blackadar will assist you with the explanation of that? A.—They sold the bond at a loss of \$166.25 apparently. (Refers to exhibit 16).

Q.—That was Mr. Blackadar's report for the subsequent year? A.—It was a second report.

Q.—There is not any year mentioned, but this is exhibit No. 16 the report. It is at the end of the year during which Mr. Blackadar was investigating the returns for 1903. It is the investigation of the next year's returns. Mr. Blackadar raises then the same questions. Now we are in a position to state what was done upon your Department charging the directors with \$918.75, the cost of these bonds. They did not adopt apparently that amendment of their account in their own bookkeeping, but kept on carrying this \$1,000 of bonds until they sold it. A.—It would seem so.

Q.—And when they sold it they made a loss of the amount stated in Mr. Blackadar's subsequent report of \$166.25, which they were in their own bookkeeping charging to the company? A.—Yes.

Q.—That was, of course, directly opposed to the item you had put into their return the year before by which they were charged with the whole cost price of the bonds? A.—Yes.

Q.—We may as well finish that and then we will not have to deal with it when we come to the subsequent reports. What was done after Mr. Blackadar's report of 1904? A.—In the first instance, I was in Toronto at the time, and went in and saw Mr. Patterson. That was one of the matters that I mentioned to him and I stated to him my view with regard to it that that would have to be made good, and I subsequently wrote him.

Q.—I see a paragraph in your letter to him of the 30th October, 1905, in which you say "Referring to Mr. Black-

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adar's report, paragraph 17, refers to a loss of \$166.25 in the sale of a bond of the Dominion Iron & Steel Company. The loss, although small, should be made good by the directors." Was that assumed by the directors? Perhaps Mr. Blackadar can tell you. A.—That letter was never answered.

Q.—We can perhaps tell that from the returns of 1905? A.—I dare say it would be difficult to trace it, for this reason: during the year 1904 the Home Life and the People's Life of Toronto amalgamated and the business on the 31st December, 1905, will cover the business or the assets, and, I suppose, the policies in force and everything of that kind of the united company, and it will probably be very difficult to trace that. There is a letter from Mr. Stratton, the new President of the company, having to do with the matter. We have it in the office and I can get it.

Q.—It has not been made part of the record yet? A.—I think not.

Q.—Then the other transaction mentioned in the memorandum of the 14th June, 1904, which Mr. Blackadar speaks about is realization on the 31st of December by Mr. Patterson's cheque of an unauthorized investment of \$7,125, and the re-investment in the same security on the 2nd January? A.—Yes.

Q.—Now that seems to have been dealt with in the letter of the 30th of June from Mr. Patterson, Managing Director, to you. "I beg to advise you that the investment reported on the 31st December has been disposed of and is represented by a special deposit in the Dominion Bank of \$7,125, which I trust will be found satisfactory." Is there any reason, by virtue of subsequent events, to doubt the bona fides of that? A.—There is not.

Q.—That then would seem to have been made good? A.—Yes.

Q.—Then will you have Mr. Grant or some one look up that \$166.25 and see if any trace can be found of what the directors did with that after your ultimatum? A.—Yes, I will see if any trace can be found. Possibly the letter of Mr. Stratton will cover that point.

Q.—We had better have that letter and make it part of the record anyway? A.—We will bring that letter.

Q.—That disposes of exhibit 28. Now exhibit 17 relates to the Central Life and is a memorandum made by Mr. Blackadar in February, 1905. He traces the history of the company since its commencing business on the 1st of April, 1901, and he shows on the 31st of De-

cember, 1904, an impairment of capital to the extent of \$20,176. I will not go through his figures but I will just read what he observes about the matter. (Reads from "An examination of the different" to "provincial licenses.") You are familiar of course generally with the subject covered by that memorandum? A.—I am.

Q.—And that was a report made upon an application by the Central Life Insurance Company for a license? A.—Yes.

Q.—Now what are the circumstances which departmentally you take into consideration when a new company applies to you for a license or when a company applies to you for a license whether or not? A.—Well the chief thing to be taken into consideration is the standing of the company financially, whether it has as to policyholders, a good safe margin of assets over liabilities.

Q.—Is it of importance, from a departmental standpoint, that the company should be doing a profitable business? A.—It is important in one sense of course.

Q.—Is it not important in every sense? A.—Well, yes, I may say that it is important in every sense, but it would not be an absolutely essential thing that it should be doing a profitable business in order to entitle it to a license. I take it the question of impairment for instances comes up there? Q.—Yes, that is one question? A.—Yes, the question of impairment; as far as granting a license is concerned it is not absolutely essential that the capital should be unimpaired.

Q.—I can quite understand that a new company during its early life must necessarily show impairment of capital? A.—Yes.

Q.—Because it is expending its capital in the establishment and development of a business? A.—Yes.

Q.—But after a company has been in existence for three or four or five years, do you expect to see something different from that with a company well managed? A.—Well, three, four or five years I think would be considered too short a time to get over the impairment or to be even doing a very profitable business, having regard to the immense commissions which it has become necessary to pay, for some reason or other, and the very large expenses. I don't think any of the new companies that have commenced business will be found to have begun to do a profitable business in so short a time as four years.

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Q.—Is it from the departmental point of view, good insurance business to be paying \$158 for every \$100 of premium received? A.—It would not be good insurance business if it was to continue for any great length of time because it would show that the company was losing money and must ultimately fail; but if the company is getting an amount of good business upon its books it will alter the condition very materially. If there is good business got upon the books and premiums are being paid in, there is or should be a profit upon every premium paid taking into account the loading, when it is actually got on the books and there is no more expense in connection with it, every premium then paid is a profit to the company.

Q.—Of course in the early life you have direct impairment of capital by virtue of the expenditure incurred in getting premiums? A.—Yes.

Q.—That is I suppose a fair enough thing and a thing to be expected. Then the time comes when in respect of insurance which has already been written there ought to be a profit being earned, excluding for the moment the acquisition of new business? A.—There should be; upon the business on the books there should be a profit.

Q.—And speaking normally that ought to be in the case of every policy, after the first year, because it is the first year that costs is it not? A.—The principal cost is certainly in the first year.

Q.—After the first year the premium ought not only to carry the policy but to yield a profit? A.—It should if the business is good.

Q.—And if the foundation, the contract which the company issues, is a sound foundation? A.—Yes.

Q.—Now, when you said three or four years was not long enough, is it not of the nature of the thing that after impairment of capital has gone on for a while, dipping into profits earned by the earlier policyholders will take the place of the impairment of capital? I do not know if that question is clear to you. We have the impairment of capital first; then we have a policy which has caused by its being brought into existence an impairment of capital. That policy, as you tell me, ought by virtue of the premium paid, to carry itself and to produce a profit if the contract is on a sound foundation. Now, then, if the ratio of expense to premium continues, the company will in the first place resort to the profit which the other policies

have earned before it impairs its capital; that is almost fundamental is it not? A.—That is to say, if the expense is to continue very much more than the loading on the premium, that it must come from some source?

Q.—Yes, and it will come first from profits before the capital will be impaired? A.—Yes, I suppose it would.

Q.—You have policy A, which has borne its burden of expense to the impairment of capital. After it has borne that burden it ought to commence to carry itself and to earn a profit; if the ratio of expense continues it will lose the profit and it will not carry itself if the ratio of expense is sufficiently high? A.—Yes, I believe so.

Q.—Then, if you take a company established in 1901, on the 1st of April, and you find on the 31st of December, 1904, taking into account not only the business in the first year, but the business in all the years and averaging the expense between new and old business, that is business during a current year, and business written during previous years, you have still a ratio of 158 to 100, what opinion do you express or entertain departmentally upon the condition of that company? A.—I should say it was not a very strong company to commence with, but still I don't think it would be disqualified for a license. That appears to be the point at issue just now as to whether it ought or ought not to be licensed.

Q.—Where would you draw the line between the granting and refusal of a license upon a company's record of expense? A.—Well, the record of expense, the expense ratio or the expense of a company is something that heretofore we have not thought we had very much power to deal with.

Q.—Turn for a moment to your licensing power, the section under which the license is granted? A.—This company would be licensed under clause C of section three. (Reads this clause.)

Q.—That is the section which makes it possible for this company to obtain a license? A.—Yes.

Q.—Then if you turn to section 6. (Reads this section.) "As soon as the requirements of the Act are complied with." A.—Well, the requirements of the Act are probably to be found in section 12.

Q.—"A statement of its affairs." What is the object in your view of filing a statement of its affairs? A.—To show that it was solvent at the time.

Q.—To show anything else? To show that its business methods were sound and that it was in a fair way of keep-

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ing out of trouble? A.—Well, heretofore we have not deemed it necessary, and I don't know that I should deem it necessary now as far as the Act is concerned, to go very deeply into that question.

Q.—The statement of affairs must be required for some purpose? A.—Yes, as I take it the primary object of that is to show that the company is and will likely be capable of paying its claims as they fall due.

Q.—If you find that a company ever since its formation and its commencing to do business has year by year further and further impaired its capital and that during the history of its operations the ratio of its expenses to its income has been such a ratio as this, would you consider that state of affairs a satisfactory one? A.—Not a wholly satisfactory statement. I would rather in any case it was different, and yet as I have said, I would not think that that would be a sufficient reason why it should be excluded. Possibly I am wrong; possibly I have erred, but certainly in the particular case of this license that was not taken into consideration.

Q.—The license was granted in 1905. Have you the return of the company for that year? A.—No, it is not here. I have no doubt it has been received.

(Adjourned to 10 a.m. on Friday the 30th day of March, 1906.)

Ottawa, March 30th, 1906.

THIRTEENTH DAY.

The Commission resumed at 10 a.m. to-day.

WILLIAM FITZGERALD—Examination by Mr. Shepley resumed:

Q.—What have you brought this morning? A.—The correspondence with the Union Life; that is copies of letters sent from the office.

Q.—These are arranged in chronological order? A.—Yes.

MR. SHEPLEY. We will complete the file of the Union Life by inserting these in their proper places. The first letter I find is a letter of the 30th June, 1902, written to Mr. Symons, in which you say "I have now before me"—(Letter read.) That was the letter which brought in reply the documents for which you asked, the letter of the 2nd July was Mr. Symons' letter, in which he sends you the copy of the trust deed, and speaks of the shares subscribed in trust, and says that the financial statement will be forwarded at a later date when completed. Then the next thing

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is your letter of the 4th July, acknowledging receipt of the financial statement, and saying "Will you kindly send a list of the shareholders of the Agency Company, showing the amount of stock subscribed for by each and the amount paid thereon," to which Mr. Symons replied on the 7th July, sending the list which we had before us yesterday. Then on the 10th July you wrote to the Deputy Minister of Justice the following letter "Re Union Life Assurance Company." (Reads letter.)

Q.—The shares referred to there were the shares in trust for the National Agency? A.—Yes.

Q.—That resolution of the 4th June, 1902, referred to, is the resolution directing the subscription and indemnifying the trustees? A.—I think so.

Q.—I observe that you do not make enquiry whether or not it was within the corporate powers of the National Agency to subscribe for this stock? A.—That is covered, in some way, I think, by a copy of the resolution, the charter followed by a resolution of the Board.

Q.—The charter defines the powers to be those of manager or agent for insurance companies? A.—But there is something further, and I certainly endeavored to cover that point. I think it is covered. I think I became satisfied.

Q.—You endeavored to cover that point from your own department? A.—Yes.

Q.—On your own consideration? A.—Yes.

Q.—I observe in some of the correspondence we were looking at yesterday a suggestion that under of the Joint Stock Companies' Act for the Province of Ontario there might be power. Was that what you considered, or do you remember? A.—Oh, it is not definitely in my mind, but I became quite satisfied that they had power to do it.

Q.—Power to subscribe for stock? A.—Yes.

Q.—Give your attention now—and perhaps it is hardly fair, but you may speak of it again—I would like you to speak off-hand now, if you can; would you be of the view that the powers disclosed in the Letters Patent incorporating the company were wide enough to permit such a subscription as this? A.—I would have thought not, from my recollection of the matter, because I made further enquiry.

Q.—If at some time before your examination is concluded, you will try and repeat the mental operation you went through for the benefit of the Board, I

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shall be obliged to you; that is, try to reproduce the discussion which took place in your mind which resulted in your forming that view. We already have Mr. Fraser's reply to that? A.—The original is in.

Q.—On the 14th July you wired Mr. Symons "Send duly verified amended list of shareholders, substituting National Agency Company"—(Reads). And that he did, as we saw yesterday? A.—Yes.

Q.—Then this is your memorandum for the Treasury Board—memorandum submitted in pursuance of your duty under the statute? A.—Yes.

Q.—Dated 14th July, 1902, re Union Life Assurance Company. "This company was incorporated by an Act of the Parliament of Canada, assented to on the 15th May, 1902—(Reads down to the words "In excess of the sum mentioned in the statute.") That is arrived at how? A.—The accepted value?

Q.—Yes? A.—Well, they were all Municipals, I think.

Q.—Yes? A.—Then it would be 95 per cent. of the market value of it.

Q.—Not exceeding par? A.—Not exceeding par in any case.

Q.—That is the requirement of the Statute as we have already seen? A.—Yes.

Q.—There is one question I should perhaps have asked you yesterday; in view of what subsequently took place with regard to the bringing in of capital, as you showed to us yesterday, all these sums that went into the Union Life Assurance Company, coming from the subscribers to the stock of the National Agency Company, were credited as payments upon the stock in the National Agency Company? A.—Credited upon the uncalled stock?

Q.—Is that right? A.—You mean the premium subsequently coming in?

Q.—What is called premium on stock, appearing year by year in the income column of the life assurance company—those all came, as you told us yesterday, or must have come, from the shareholders of the National Agency? A.—Yes.

Q.—And coming from the shareholders of the National Agency were applied as payment upon their unpaid stock in that company; so that their stock would be gradually being paid up by this clause? A.—There is no doubt that would be so.

Q.—On the other hand, being put into the life company as premiums upon stock they did not at all pay up the calls in that company? A.—No; that is correct.

Q.—Let me take you just a step further; I do not at all mean to suggest that this ought to have occurred to you at the time you were taking the opinion of the Department of Justice, or at the time you were recommending the Treasury Board; I am pointing out what took place afterwards. Then assuming that the Union Life Assurance Company found it necessary for any reason to call up its stock in order to pay its policyholders or its creditors, it would have recourse against the National Agency Company, of course, for the \$900,000? A.—Yes.

Q.—Approximately. Then if in the meantime, by this device of bringing in paid capital in the National Agency as premium upon capital in the other company, if by means of this device the capital stock in the agency company became fully paid up, there would be no recourse whatever against the shareholders of that company? A.—Of course as soon as the shareholders of the National Agency had fully paid up, there could be no recourse against them; undoubtedly that is the case, but of course the balance due was \$900,000. I think the capital of the National was increased to—

Q.—We did not see any sign of that yesterday? A.—Oh, yes.

Q.—I do not think so? A.—There is a supplementary Letters Patent there under which the capital was increased.

Q.—Amongst the papers? A.—Yes.

Q.—Let me refer to that, because either I have entirely forgotten it, or else it did not attract my attention; it was not amongst the papers yesterday? A.—I think undoubtedly if it was not there it ought to have been there. Here is the document increasing the capital.

Q.—You are quite right, Mr. Fitzgerald; it is my omission to notice that there were two documents here that were different, both Letters Patent issued by the Province of Ontario, I taking it for granted yesterday that one was a duplicate of the other. You are quite right in saying that by Letters Patent issued on the 28th August, 1901, the capital of the Agency Company was authorized to be increased in accordance with the provisions of a resolution which had been passed by that company, from the sum of \$100,000 to the sum of \$500,000? A.—Yes.

Q.—I do not know that that will affect the general result of yesterday, because we were speaking of that company yesterday as a company with a capitalization of \$500,000. That in-

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crease in the capital of the National Agency was not necessary for any other purpose, was it, than for the purpose of enabling money to be used to put into the coffers of the life assurance company? A.—Well, I don't know of any other object.

Q.—That is your memorandum for the Treasury Board, and upon that the license was issued? A.—Yes.

Q.—What is this document? Letter to Arthur H. Phillips, St. John, P.Q.? A.—That is in answer to a letter from a policyholder of the North American.

Q.—I suppose the letter to which this is a reply could be obtained? A.—I think it is likely it can be obtained.

Q.—23rd December, 1903, from you to Arthur H. Phillips, Quebec? A.—Yes (Letter read.)

Q.—What is this letter from J. F. Tufts to Mr. Fielding? A.—It is making some enquiries.

Q.—And this is a memo that you prepared? A.—That I prepared for Mr. Fielding upon the subject.

Q.—Wolfeville, N.S., July 12th, 1905. (Letter read.) That is hardly an accurate statement of the relationship between the companies, to say that the National Agency is an industrial branch of the life? A.—No.

Q.—What is the statistical year book? A.—There is a year book published by the Department of Agriculture. Mr. Johnston was the statistician; I am not sure that that is what is referred to there.

Q.—This gentleman seems to think that year book shows both the Union and National Agency? A.—I will get it.

Q.—Would it take long to get that year book for 1903? A.—Mr. Grant will telephone for it.

Q.—Then this is the memorandum which, at the instance of the Minister, you prepared upon that communication? A.—Yes. (Letter read.)

Q.—That enquiry, of course, was at a comparatively recent date; it was last year, July, 1905? A.—Yes.

Q.—Then I suppose the letter was answered probably, but you would not have a record of that? A.—I would not have a record of that.

Q.—Then what else have you brought this morning? A.—The opinion of the Justice Department in regard to what is known as silent assets.

Q.—The opinion of the Department of Justice on the subject of what has been spoken of as silent assets? A.—Yes.

Q.—In what connection was it that

this opinion was asked? In connection with what particular matter? A.—The Sun and the North American; it is stated in the case—

Q.—The companies whose operations had given rise to the question are both mentioned in the case? A.—Yes.

Q.—And they are the Sun and the North American Life? A.—Yes.

Q.—And is it in respect of the transactions which I have been asking you about in those two companies that the question is asked? A.—Yes.

Q.—Then this is your first letter to the Minister of Justice, dated 31st January, 1906? A.—Yes. (Letter read.)

Q.—You are speaking there of the form of return? A.—Yes.

Q.—You stated the case there rather more fully than my examination of you yesterday did with regard to the contents of the schedule. "The par and market value of Canadian and other stocks and securities owned by the company, specifying in detail the number of assets, par and market value of each asset"; that is pretty sweeping? A.—It looks to be sweeping.

Q.—Can you get me the letter of Mr. Harpel, which is referred to here? Is there a copy in the Department? A.—No, there is not a copy of that letter in the Department.

Q.—It is a letter apparently published in the Citizen newspaper? A.—Yes.

Q.—And I suppose by a reference to the files of about that date it can be found? A.—Yes.

Q.—You do not make a reference there to the contents of the schedule in your questions? A.—Well, the schedule that is mentioned is what is contained in the Act.

Q.—You say the schedule cannot rise above the provisions of the Act? A.—That is all.

Q.—You cannot demand more in your schedule than what the Act authorizes? A.—No, I look upon the schedule as a portion of the Act.

Q.—On the 9th February, 1906, the opinion is given. (Reads opinion). That was the opinion of the Department of Justice? A.—Yes.

Q.—You thereupon wrote upon the 12th February, 1896, to Mr. Goldman and to Mr. Macaulay; the letters are exactly alike, with the exception of the address? A.—Yes.

Q.—(Letter read). Then you had a reply from Mr. Goldman, but none, I think, from Mr. Macaulay? So far as I remember, there is none from Macaulay? A.—I searched and could not find any.

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Q.—And the letter from Mr. Goldman 13th day, March 30, 1906. action upon that yet? A.—That letter has not yet been answered.

Q.—Has there been any departmental action upon it in any way? A.—No.

Q.—Or any departmental decision? A.—Except a decision to publish the return, publish the information.

Q.—To publish the information; have you determined in what shape? A.—Not precisely, but my idea is that carrying it in short there, as he describes it, will be all that will be required; that is, mention the security and the amount of it, but not adding it to the market value.

Q.—Not carrying it into book value? A.—Not carrying it into book value.

Q.—That you think would be sufficient? A.—I think so; I think that would be sufficient.

Q.—You think that that would mean that the company has specified in its return all its assets, although, in respect of some of them, no value has been placed upon them? A.—No. If any different opinion might prevail, I would like to have it, if the commission would express an opinion.

Q.—I call your attention to form A of the schedule to the Act; it shows a list of securities which are to be set out in the statement, including par and market value? A.—That will undoubtedly show the par value, but if, as Mr. Goldman says, there is no ascertainable market value, what can you do? You cannot publish what you don't know.

Q.—That would perhaps drive you to check the statement that there is no ascertained market value, but if you discovered that it had a market value, any particular stock of this sort, would it not fall, in your view, within this form? A.—I had not thought of it in that light. (Exhibit 54.)

MR. LANGMUIR. It might be possible to ascertain what is the market value, say in Milwaukee or Chicago.

WITNESS. We will have to ascertain the value as well as we can.

MR. LANGMUIR. It might be as well to have a footnote, showing the position of it.

MR. SHEPLEY. Q.—Mr. Goldman suggests a purpose for the seclusion of these stocks in the interim; that is to form a nucleus for the additional reserve which will be required in 1910? A.—Yes.

Q.—Have you any observation to make about that? A.—I think there is something in the correspondence brought down. Someone, a member of some company—and my present belief is

that it was Mr. Bradshaw—made a suggestion to that effect—that the Act should contain a provision requiring every company to set apart from year to year a certain amount, so that when the time came to change the basis of valuation there would be a sufficient fund on hand to meet it; that is apparently what Mr. Goldman is really doing.

Q.—That is what Mr. Goldman says these silent assets are intended to serve? A.—Yes.

Q.—I do not think there is any trace of that in the correspondence with Mr. Macaulay upon the subject? A.—No, there is not.

Q.—Speaking from your recollection, what is Mr. Macaulay's position with regard to the contingent fund? A.—It is this, that there could be no objection to the company being actually stronger than it puts itself before the public. There could be no objections to that. It goes to the country and does business upon the strength of a certain amount of assets, and there can be no objection in his view in the company having more assets than it advertises.

Q.—More than it discloses in its statement to its policyholders? A.—I think, shortly stated, that is his contention.

Q.—Do you offer any observation upon that statement of policy? A.—Well, as the Act is at present interpreted, of course that is no longer tenable; the position is no longer tenable.

Q.—I am treating that as a declaration of policy upon the subject of the maintenance of a contingency fund, and I am asking you to deal with that as a statement of a matter of policy from an insurance standpoint? A.—It is a proper policy, in my opinion, that the company should be certainly as strong, and if it errs on either side it should have a little more than it advertises, but what I mean to say is that there always should be a safe margin—yes, I should say a safe margin—between what is advertised and what is really possessed, so that at no time would the assets go below the amount which the company sets forth that it holds; I would not think, however, that a very large amount was necessary for that purpose.

Q.—I think a great many people would agree with that as a general statement. Do you see any weakness in the declaration of that as a matter of policy? Do you see any weak points about it, from a countervailing reason of policy, or reasons? A.—There might be this reason: the policyholders might

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take the view that they are entitled to have disclosed everything of every kind which the company has, and their doing that would probably show a larger surplus than would otherwise be shown; that being the case, they might be entitled to have a larger division of profits.

Q.—That is intelligible and clear as far as it goes. Is there any other—I won't say conclusive argument, but countervailing argument, based upon grounds of policy that occurs to you?

A.—There might be this further, that to have assets put aside in that manner might make it possible for the management to deal with those assets in an improper manner.

Q.—A variety of methods probably would occur to you that might be possible. If you have a silent or a secluded asset, which is not before the eye of the policyholder, what check have you upon the nature of the investment which is represented by that? In the nature of things you cannot have any? A.—No, you cannot very well.

Q.—Does it not offer the possibility of unauthorized investments as the contingent funds assume a value? A.—No, I do not see that it does.

Q.—You do not see how it does? A.—No.

Q.—Remember, I am dealing with this question of silent assets not at a time when there is any market value, but at a time when they have taken a value; they have taken a value in the case of the Sun Life, we are told, of nearly two million dollars. What check is there upon the method of investment of that, if these are secluded, not only from the eye of the policyholder, but from the watchful supervision of the Government Department? A.—Well, they have not been wholly secluded from the supervision of the Department.

Q.—To that extent they are not secluded? A.—No.

Q.—But the intention is that they are entitled to seclude them? A.—Yes.

Q.—I am talking of the policy of that, not the policy taken with the fact that they have not been able to entirely carry it out?

MR. SMITH. They never tried to carry it out? A.—Put your question again.

MR. SHEPLEY. Q.—I am speaking now as a broad question of policy, a broad question of insurance policy from the standpoint of the policyholder, from the standpoint of the Government which is protecting the interests of the policyholder. I am speaking now about a

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policy which permits to any extent assets of the company, after they have assumed a value, of being withheld from the Government and other returns? A.—As a matter of policy I think they should not be withheld.

Q.—Does it occur to you that, however high-minded a trustee may be, that it is not well that he should be able to say "I have assets which I am not disclosing"? A.—I do not think it is a wise policy.

Q.—In the case of the Sun Life, not speaking in detail at all, there was unauthorized investment in respect of those assets, was there not? A.—Well, only, I think, to this extent, that certain securities were held beyond the limit which was authorized—

Q.—I call that an unauthorized investment. If you have invested in a fund to a greater or less extent than you are authorized by law to invest in it, I call that, to the extent of the excess, an unauthorized investment? A.—To that extent, it is correct.

MR. SHEPLEY. Mr. Smith thinks it is fair, and I think it entirely fair, to say that in pursuing this enquiry into the realm of policy, I am not at all anxious that anybody should lose sight of the fact that in the particular case of the Sun Life these assets were put in a foot note before the correspondence came up. In my questions I was not attempting to deal with a concrete case so much as with the question arising out of the abstract principle.

THE CHAIRMAN: I understand.

MR. SHEPLEY. Q.—Two questions, not upon this subject, but upon another—and I am very anxious that no false impression should be created. Your Honors will see that it is impossible to conduct the enquiry without appearing to be treading upon people's corns before the time comes for treading on corns. But I do not desire in advance to create any false impression at all. I am asked to ask you two questions in regard to the Sun Life, in regard to the reduction in respect of reserve. In the first place, was not the rate of interest in 1899 lower than it is now? That is the question that Mr. Smith desires you to be asked—the prevailing rate of interest? A.—I believe that is so.

Q.—Then the other question is whether, when the Act of 1899 was passed, the Sun Life complied with it? A.—Oh, yes, necessarily, they had to.

Q.—They did, at all events? A.—Yes.

Q.—Before they were obliged to? A.—They have now put themselves upon

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a 3 1-2 basis, although they were not obliged to do that until 1915.

Q.—The question as to the wisdom or policy of doing that is another matter?

A.—Yes, as a matter of fact, that is done.

Q.—We have the statistical year book for 1903, and Mr. Tilley has been good enough to refer to the pages spoken of in Tuft's letter, pages 600 and 608. He speaks of the Union Life statement, or the figures of the Union Life, including the National Agency. There is nothing upon the face of the book to indicate that, and it is just possible we may have confused the National Life with the National Agency, which is another company appearing in the list? A.—Pages 600 and 605.

Q.—It may be included in the total under Canadian policies on page 605, but it is not mentioned by name on that page? A.—No.

Q.—What is the next? A.—This is a memo with reference to infantile insurance, which Mr. Grant has prepared.

Q.—This is an historical statement, is it?

MR. GRANT. It is in answer to a question on your order paper, for any correspondence relating to the subject of child insurance. We have no such correspondence, but I have jotted down a few of the legislative enactments in regard to it from the point of view of its being harmful.

MR. SHEPLEY. I am much obliged to you for that, and instead of making it part of the record I will make it part of my brief. It is an historical statement on the subject.

Q.—What else have you? A.—I have this in regard to the Central, the letter which I have shown.

Q.—With regard to the Central Life, this is a letter written by you on the 29th September, 1903, to Mr. Blackadar, written from Prout's Neck, where you were with your son who was ill? A.—Yes.

Q.—The greater portion of it is upon private matters, and I do not touch it at all. At the top of the second page these observations occur:—"The Central Life Insurance matter can stand until I get back. What do you think of it? I do not like so many of those small weak companies. Some of them will fail one of these days, and should that be the case I would rather the failure took place when not under our jurisdiction." This is an extract from your letter to Mr. Blackadar on the 29th September, 1903. Then this letter was written to you while still away, on the 3rd October, 1903, by Mr. Blackadar? A.—Yes.

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Q.—(Reads letter). "To be strictly accurate, that should have said 'Not exceeding par'?" A.—Not exceeding par.

Q.—Then the rest of the letter is about a different matter? A.—I think that is the only matter referring to this.

Q.—Has that anything to do with it, the Imperial and Reliance? A.—No, that is two fire companies.

Q.—There is something said here about some correspondence with Mr. Goldman; I would like that looked up?

A.—I think that is in; as I recollect it, it is with reference—

Q.—It is about the desire for legislation increasing the powers of life insurance companies? A.—My recollection is that it is in. It is in reference to giving them consent to buy certain securities.

MR. SHEPLEY. This will go in with the report of Mr. Blackadar in the same exhibit regarding the Central Life.

Q.—Is there anything else? A.—I think that is all.

Q.—Now, I want to go on from the matter of the Home Life, which was touched upon yesterday in a report made by Mr. Blackadar for 1903, and deals with the matter that he took up in 1904, or after 1904. You, of course, have seen this report of which this is a copy, and which is in paragraph 18? A.—I have no doubt seen it, although I do not remember the full contents of it.

Q.—This is a matter of the same nature as the Central Life—that is partially, at all events—in respect of impairment of capital; you spoke yesterday of the normal impairment which may be expected to take place in the first few years of the operations of a new company. This is a company being reported upon in 1905 in respect of its operations up to the end of 1904, the company having commenced business in 1892? A.—1892; that would be as an assessment company; it did not go to a level premium basis until it obtained a second Act of Incorporation.

Q.—That would be in 1899? A.—In 1899.

Q.—Then it would be from 1899 to 1904—a period of five years? A.—Yes.

Q.—This is the statement: I will go through it quickly, because we have been over it before, and I want you to seize yourself of it as I go, so that you may answer my questions. "Continued as an assessment company until its charter was amended." (Reads). We will come to paragraph 4. (Reads). I pause there to ask you just as I did

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yesterday in the case of the other company, whether, having a regard to the length of time this company had been in existence, that was a normal or an abnormal impairment of capital? A.—That is after practically five years existence?

Q.—Yes? A.—It seems a little large, but I would not say that under existing conditions and the cost of obtaining business that it would be inordinately large.

Q.—You say it seems a little large, but you cannot say it would be inordinately large? A.—No.

Q.—Having regard to the existing conditions? A.—Yes.

Q.—What percentage of capital would you expect to get in five years, or to be left by way of impairment at the end of five years of reasonably successful operation? A.—I could not make an estimate.

Q.—Because here you have on this statement, apart from the written up value of the head office building, you have \$108,000 out of \$167,000. That is a very large percentage. It seems to me I am not sufficiently familiar with the subject to express any view about it? A.—Nor am I sufficiently familiar with it to express anything like a positive opinion with regard to it, what it should be.

Q.—Then in the same way, excluding the amount written up on the Home Life building, it shows an increase in impairment from year to year; the impairment in 1899 was \$11,000. There are odd figures, but I am just taking the round figures. In 1900 \$22,000, in 1901 \$37,000, in 1902 \$63,000, in 1903 \$77,000, in 1904 it had risen to \$108,000. Are those figures to an insurance expert significant in respect of the question I am interrogating you about? A.—Yes, they seem to be. That was a very rapid rise there in the last year, a very rapid increase, and it would seem to me that there must be some cause for that, I should suppose, in the nature of want of capable management in some form, or it could not be so rapid.

Q.—We will see whether you get any explanation of that by the further analysis made by Mr. Blackadar. In a normally well-conducted insurance business, should you not, at the fifth year, begin to replace your capital, rather than increase it by an unprecedented amount? A.—I do not think any of the new companies of late years have come to the turning point in five years, where the capital ceases to be impaired, and ceases—

Q.—I do not mean ceases to be impaired? A.—I do not mean that ex-

actly, but where the impairment ceases to increase. I do not think any of the new companies have arrived at that point in five years.

Q.—Can you state in a general way, because I would not expect you to do more, when normally you would expect to see the impairment commence to be made good? A.—That is a question of practical insurance that hardly comes within my sphere.

Q.—It is a question of observation, because you have had the affairs of insurance companies under your eye for a great many years now? A.—Well, it is a question then that I have never taken up and looked closely into.

Q.—You say you have not made it a study with sufficient closeness to express a view about it? A.—No.

Q.—Mr. Blackadar says he has made an analysis of the general expenses of the company for the last four years, and he has divided them equally into commissions, salaries and other expenses, and then made a total in each year. "In salaries are included executive officers' salaries, salaries of clerks, agents' salaries, directors and auditors' fees, the other expenses including taxes and miscellaneous expenses as given in the returns; for the year 1901 the commissions were \$16,000; 1902 \$34,000; 1903 \$31,000; in 1904 they dropped to \$28,000. Is that progression significant to you at all in connection with the matter I am asking you about? A.—The amount of commissions?

Q.—Yes, from 1901 to 1902 the jump was \$18,000. Then there was a drop of \$3,000, and then a drop of another \$3,000 for commissions in 1904. Would that indicate anything to you? A.—Not necessarily. If the business was rapidly increasing of course the commissions might increase. It might result from either a rapid increase of business or an increase in the rate of commission.

Q.—Then take the next item, salaries: \$20,000 for 1901, \$23,000 for 1902, \$26,000 for 1903, and for 1904 \$31,000? A.—That is a large increase in the last year \$7,000. Apparently the insurance managers have been giving themselves good salaries.

Q.—Take the increase in the four years of \$11,600? A.—That increase might be accounted for in this way: by giving the agents salaries who had been previously paid by commissions.

Q.—Then the other expenses for the four years are \$12,000, \$20,000, \$17,000 and \$17,000. Those are taxes and miscellaneous expenses as given in the returns, and the totals rise from \$49,000

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to \$77,000 in 1902; that, I suppose, has no more significance as a total than its constituents have? A.—I do not think it.

Q.—He has separated the renewal premiums, and I would like you to look at that. Those are amounts received for renewal premiums and first-year premiums in each of those years. You see the amount received for first-year premiums—just take two years—drops from 1903 to 1904 from \$36,000 to \$31,000, or \$5,000 less; you see that? A.—Yes.

Q.—And you see in respect to renewal premiums the increase in those two years is from \$81,000 to \$98,000? A.—That would appear to indicate less new business.

Q.—And more renewals? A.—More renewals and therefore fewer lapses.

Q.—Ought that not to indicate a decrease in expenses? If you are writing less new business and receiving more renewal premiums, ought not your commissions to be less? A.—Yes, I should think so; I should think that is a fair conclusion.

Q.—And you see, taking commissions and salaries together, they have very considerably increased. Does that fact, when it is called to your attention, possess any significance to you? A.—The fact that the expenses have increased while they apparently should not?

Q.—Yes, having regard to the receipts they should not have increased? A.—I can only say that that would appear to indicate incapable management in some quarter; just where to locate it I could not say.

Q.—Then do you agree with Mr. Blackadar's assumption in the next paragraph that 15 per cent. of the renewal premiums may be expended in carrying on the old business of the company, that that is a fair average? A.—I think it is.

Q.—And that the balance of the loading and all the loading on the first year's premiums may be used for procuring new business? A.—How is that?

Q.—And that the balance of the loading on all the loading on the first year's premiums may be used for procuring new business; I want to know what you think as an insurance principle, is it legitimate to use the loading placed upon renewal premiums to diminish the cost of obtaining new business? A.—There does not seem to be any serious objection to that. It is added there that the loading is for the purpose of expenses.

Q.—Should not the loading to the renewal premium in theory be a loading,

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at all events, in respect of carrying and providing reserve and profits for the policy of which it is a renewal premium?

A.—That would be upon the assumption that the loading upon the first year's premium is sufficient to obtain the insurance. It is not as a matter of fact; it is not one-third enough.

Q.—It is found not to be? A.—It is found not to be.

Q.—But in theory that is what it ought to be? A.—Yes.

Q.—In theory that is the ideal condition of a first premium? A.—Yes.

Q.—That it is loaded sufficiently to pay for the expense of getting it? A.—Yes.

Q.—In practice, however, that is not found to be so? A.—Impossible to do business upon that basis.

Q.—And moneys received by way of loading the premiums from old policyholders, which might be expected to be set apart for their profits, have to be used in meeting the expense of obtaining new business; that is right? A.—That appears to be correct.

Q.—That appears to be so? A.—Yes.

Q.—Now, if you will, if you can, I think we should like to have your opinion as an insurance man upon that as a question of insurance policy? A.—As to whether it is wise?

Q.—Whether an insurance system which has developed such a condition as that in respect of loading upon its premiums, by virtue of the excessive cost of obtaining new business—whether that is sound insurance? A.—If it is possible to avoid it, I do not think it is sound insurance; that is coming to the question of expenses. I think it is agreed by every company, and by everybody in the business, that the expenses are larger than they ought to be.

Q.—And why? A.—Well, I suppose it arises from the competition amongst the different companies, and the desire of each company to secure as much as possible, and the contention, possibly, between the different companies, to see who can secure the most.

Q.—I suppose the legitimate way, if it were not for competition, would be to load the first premium with a sufficient amount to cover the cost? A.—Well, that brings up a question that I think is purely actuarial. It has been suggested, not that it should be loaded, but that for the first year it should be continued as term insurance, and at the end of the first year that the whole first premium would be wiped out. That is not the theory which is generally accepted, however.

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Q.—That is not the theory upon which business is being done? A.—No.

Q.—And is it not all the result of competition for business among these numerous insurance companies? A.—Well, I do not exactly catch the drift of that last question, is it not all the result? What is it you refer to when you say that?

Q.—All that we are speaking about, the inadequate loading upon the first year's premium, and the consequent resorting to the premiums on old policies for expenses for obtaining insurance; is that not the result of competition, or if there is any other element entering into it, let us know? A.—Will your idea be that the first premium should be any larger than any of the others?

Q.—No? A.—If that is so, it could not be carried out in practice.

Q.—No. If it were not for competition would the cost of obtaining new business be anything like what it is?

A.—Certainly it would not, if it were not for the competition. If companies employed no agents at all, allowed the men who wanted insurance to come to the office and get insurance, there would not be the expense there is now.

Q.—In what way does the competition operate to increase the expense? Is it because the agent is tempted, by a larger slice out of the premium by way of commission, to push the business? A.—That would be one way. Each company is vying with the other in order to get business, giving to an agent a larger commission than he can get elsewhere in order to stimulate him to go on, and then again it may be a question or rebating, because another agent, in order to secure business, instead of getting the full premium, throws off one half, something of that kind. I think these all combine towards increasing the price.

Q.—Is the fact that an agent in the course of competing with other agents finds it expedient to make rebates, an element which enters into the fixing of his commission? A.—That is a practical question.

Q.—That again you say is a practical question? A.—Yes.

Q.—Are you acquainted to any extent with the actual practice in respect of rebates? A.—I am not. I think some years ago an agreement was entered into between the companies not to grant rebates at all, but my recollection is that it was never carried out, that none of the people who

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subscribed to the agreement ever carried it out in full. There was at one time a Bill introduced into the Commons here to prevent rebates. I remember the circumstance. The Bill got its second reading, and it came to the Committee on Banking and Commerce and was killed.

Q.—Whose interest was it that it should not be passed? A.—Well, there appeared to be a variety of interests. I remember very well an argument of this kind was used in committee: "If I have made up my mind to take out a policy upon my life, I know a particular agent and I prefer to give him the business, I go to him and say: 'Now, that is a large premium; cannot you lower it?' Well, the agent will say to him: 'I get a certain commission out of that; say it is \$50; I do not mind dividing the commission with you; you take the policy and I will take half that commission'; and in that way it would go on. It was put that way. If that occurs, as one of the members of the committee said, it is nobody's business whether that agent takes less commission than he is entitled to or not"; and several took that view.

Q.—Did that appear to be the argument which prevailed? A.—That appeared to be the argument which prevailed.

Q.—Of course it is easy to pick out flaws in that position? A.—However, that was the end of the Bill. There was at one time in Ontario a law—

Q.—You do not want us to suppose that the interest which was concerned in killing the Bill was the interest of the insurer, the person to be insured. That representation may have been made, but was that the interest which was interested in killing the Bill, as you put it? A.—In the argument that I have just mentioned, I have no doubt it was the interest of the assured, the particular person who made use of that argument. It was in his interest.

Q.—I should have expected that sort of argument to come from those concerned in the insurance companies pushing business? A.—It might operate both ways, but I have no doubt the person who used that argument, in that committee thought it would be injurious to him if it was put the other way.

Q.—Who were represented? Was there anybody but insurance people represented before the Committee? Were people there, either really or ostensibly, in the guise of poor policyholders? A.—No, I do not remember that there were.

Q.—There were insurance people there? A.—I think the principal people

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that were there were simply members of the Committee, members of Parliament and members of the Committee, and I do not at present recollect that there were any outsiders at all.

Q.—You do not remember whether there were any insurance people represented? A.—Of course, the insurance people, the companies, have all along, I think, been desirous, if they could, to prevent rebate.

Q.—Is it not manifest that it is grossly unfair to the great body of policyholders that they should stand upon a different footing with regard to this question of rebate? A.—Certainly it is, it is very unfair. If one man is compelled to pay the full premium, and another man gets the percentage off, it is unfair to them, and should be prevented, but the question is how to prevent it.

Q.—Is there any argument that presents itself to your mind—I do not wish to exclude even a specious argument—in favor of the system of rebate? A.—No, there is not.

Q.—That was a divergence, in a sense, and in another sense it was not. Mr. Blackadar's report goes on to divide up the fifteen per cent. taken out of the renewal premium for the purpose of carrying on the old policy, and he divides it in this way: "Apply five per cent. to commissions, five per cent. to salaries, and five per cent. to other expenses." Do you agree with that division on the matter of principle? A.—I should think that would be a fair division.

Q.—That is, you may assume, when you have taken this 15 per cent. as applicable to the business of the old policy, you may assume it costs five per cent. in commissions, out of that 15—that is one third of 15 per cent.—and five for the salaries of the officers of the company, and five for other expenses? A.—Yes.

Q.—"Assume these ratios constant, the actual ratio of these expenses in respect of the new premiums will be as follows"—and then he gives the table. (Reads table). And he shows the ratio increasing with the exception of one year; so that while the total expense was \$154.77, on the new business, as against fifteen on old in 1901, in 1904 it is \$195.66 on new to the constant fifteen for old. Has that a significance to your mind in connection with the business which this report professes to cover? A.—For some reason or other the new business was costing entirely too much.

Q.—Assuming a constant ratio of the fifteen per cent? A.—Yes.

Q.—Apparently it was costing? A.—Nearly two whole premiums.

Q.—Nearly two whole premiums to get \$100.00 of premiums, paying \$195.66 in expenses. Well now, Mr. Fitzgerald, what do you say to a business whose operations result in an analysis of that kind? A.—It would seem that that business was being conducted at a loss.

Q.—At a very serious loss? A.—Yes, and at a loss which, if continued for any great length of time, must result in the failure of the company.

Q.—As Mr. Blackadar says, "If these ratios are maintained it will be but a few years before the remainder of the paid-up capital is wiped out." There has been \$108,000 out of \$167,000, I think it was, already gone and it would be but a short time before the rest would go. From the standpoint of the policyholder—leaving out of the question the stockholder—what do you say as to a business of that sort being permitted to continue? I beg the question for the moment as to whether you could prevent it or not—but as to the policy of a business showing those results, from the standpoint of the policyholder, what do you say? A.—From the standpoint of the policyholder I think it is very questionable whether it should be.

Q.—Then the next paragraph in the report deals with the writing up of the asset, the Home Life Building. That was dealt with in a way which was satisfactory to the Department by Mr. Blackadar? A.—Yes.

Q.—Then I will not take up time with that. The writing up which was eventually permitted by the Department did not do away with the impairment of the capital? A.—No, it still left the capital impaired.

Q.—Then the next item is with respect to liens on policies and accrued interest thereon. This is said to be a safe enough asset. Am I to understand that all those liens were in respect of the conversion of the old assessment policies? A.—Not of the old policies of that company, but in respect of certain others taken over from the Covenant Mutual.

Q.—But these liens are not in respect of any of the ordinary life policies of the company? A.—I think not.

Q.—I gathered so from Mr. Blackadar's earlier reference to it in paragraph 5. Then the next paragraph is about the Grand Valley Railway Company's bonds. I want to ask you a question or two about that. He encloses a prospectus which we have here, giving information as to the charter powers and route of the railway. (Reads from "The Home

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Life holds \$44,000 of the 6 per cent. bonds of this company" to "This advance was repaid on the 31st of December together with the balance of interest.") The manager of this insurance company was vice-president of the railway company, according to what is stated in the report. A.—Yes.

Q.—\$44,000 of the bonds of this company had been purchased, which carried a 50 per cent. bonus stock. Out of the funds of the company an advance had been made, do you understand with or without any security, to the extent of \$18,000 beyond the purchase price of the bonds? A.—My recollection is that it was without security.

Q.—That would be during the course of the year for which Mr. Blackadar was examining and on the 31st of December, the date at which it was necessary to make up the return, that seems to have been paid off? A.—I only know of that from the statement in the report.

Q.—I asked you the other day with respect to your view as to the propriety of a transaction between an officer of a company and the same individual as an officer of another company in a transaction of this sort, and I think you expressed your view with regard to it. A.—A person should not, I think.

Q.—Be both vendor and purchaser? A.—Should not occupy a dual capacity.

Q.—Apart from that, what right was there, if any, to lend money to the company of which the manager was the vice-president, without security at all, during the course of the year? A.—That is to say whether the securities of the company could not be purchased because of an officer?

Q.—No, I have passed the security now; I am talking about the unsecured loan. What do you say as to the principle of a transaction of that sort? A.—A loan from a company to one of its officers, unsecured?

Q.—Yes? A.—Why of course it could not be supported upon any ground.

Q.—Does the objection to that at all disappear because it is taken out of the books on the last day of the year when the Government return has to be made up? A.—No, that does not remove the objection to it.

Q.—Then the report proceeds that further advances are now being made to the railway from month to month and at present amount to \$5,220. (Reads to "has now taken up its full amount of the bonds.") That is, has taken up all the bonds they are entitled to take. Then

comes a transaction which Mr. Blackadar himself dealt with. "The market value of the bonds was entered at 105 or \$46,200 in the Government return, but in view of the speculative character of the investment I have reduced the amount of the cost price to \$37,710." I have just forgotten for the moment whether Mr. Blackadar told us of any steps taken in respect of that advance of \$5,220. Do you remember? A.—The unsecured advance?

Q.—Yes? A.—Nothing beyond discussing it with—calling it to the attention of the directors of the company.

Q.—And was it made good? A.—I think it was.

Q.—It does not appear at all events in the next annual return? A.—That is as I remember it.

Q.—Then the next matter is the foreclosure of an electric light plant. I will pass that over. Then here is another unsecured advance, originally \$20,000, but reduced to \$10,000. "Cash to Canadian Homestead, Loan & Savings Company, no security for this loan other than a receipt." I do not know that I need do more than mention that. Then there was an overdraft by the Managing Director on his salary and commission account of nearly \$2,000. Then the holding of the various certificates in trust. Then comes that \$166.25. Have you had any inquiry made about that, the loss on the sale of the Dominion Iron & Steel bond? A.—The statement just received does not throw any light upon that.

Q.—You are not able to say now whether that has ever been made good by the directors? A.—No.

Q.—Then there was an item, premiums on unpaid capital stock \$8,051. A.—Of course that was stricken out. That was indefensible on any ground.

Q.—You wrote an official letter on the 30th of October, 1905, enclosing a copy of this report and drawing particular attention to certain of the paragraphs in it. Now with respect to that return of the company in which these matters to the number that Mr. Blackadar specifies in the report had to be criticized and found fault with, some of them, as you have said, being altogether vicious in principle, or wrong in principle—do you think that your powers in respect of these companies are wide enough to enable you to deal satisfactorily with questions of that kind? A.—I don't think so. I don't think they are.

Q.—What would be the most efficient method of empowering you to deal with

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these questions? A.—Well, that is a subject I have not thought out, but one of them, it appears to me, would be to make it clear that when a thing of that kind occurred the license should not be renewed.

Q.—That would seem to be very effective. Now I do not think that I have as yet, Mr. Fitzgerald, asked you personally any questions about the transactions disclosed in respect of the Manufacturers' during Mr. Blackadar's examination, have I? A.—No, except such as were asked when the correspondence was being read.

Q.—I want to follow that up a little, if I can, with you. The first matter mentioned in this report of Mr. Blackadar's is as follows:—"In June, 1903 the company bought from Mr. S. G. Beatty \$40,000 Electrical Development Company bonds, with 90 per cent. stock bonus, at 95; and in January, 1904, a further purchase of \$10,000 bonds on the same terms." (Reads to "In all the company held \$50,000 bonds and \$45,000 stock at a cost of \$47,500.") Who was Mr. S. G. Beatty, having regard to the company? A.—I believe Mr. Beatty was a director.

Q.—Let us verify that; let us not do him or the company an injustice. He seems to have been a director on the 31st of December, 1904, and my learned friend Mr. McLaughlin informs me that he was a director in 1903. Then by a minute of the board on the 22nd of May, 1903, the company also purchased \$50,000 five per cent. Mexican Light & Power bonds at 90, with a stock bonus of 70 per cent. Was that also purchased from Mr. Beatty? A.—At present I have no recollection of this particular report at all.

Q.—Then just read the first paragraph of it? A.—This is a report just quite recently received and I may say with reference to it that I have very little more than read it over. This is the only thing that I have marked here, the only action that was taken with reference to it.

Q.—I want you to familiarize yourself with that before I ask you about it, because it is not useful to ask you questions that you are not ready to answer. Perhaps I should have directed your attention specially to it in order that you might prepare yourself. A.—This is really so complicated that I am afraid I cannot give any lucid explanation of it at present or any explanation that would be of any service to you.

Q.—I am anxious to take it in the particular order and perhaps Mr. Fitzgerald could look it up if we adjourn a

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little earlier to-day. I wish to remove some impressions that may have been created on a former occasion; I think it is proper that I should do that as far as it is desirable to do so, before the adjournment this afternoon (Adjourned to 2 o'clock.)

Ottawa, Friday, 30th March, 1906

AFTERNOON SESSION

The examination of Mr. Fitzgerald continued.

MR. SHEPLEY. Then Mr. Fitzgerald, you have been examining this report of Mr. Blackadar's in the recess? A.—I have.

Q.—The last question I asked you was whether or not you understood this report to imply that the purchase of the \$50,000 of five per cent. Mexican Light & Power Company bonds at 90 and the stock bonus at 70 was from one of the directors, Mr. S. G. Beatty? A.—I so understood it.

Q.—Then that transaction is a transaction by itself. Had it any connection with the transaction in March, 1904? A.—Except that the bonus stock mentioned here is a portion of this stock.

Q.—Of the stock that is mentioned in the memorandum relating to the sale of these various stocks? A.—Yes.

Q.—That is the bonus stock? A.—The bonus stock.

Q.—That is \$45,000 of stock in the Electrical Development Company which was bonused originally and \$45,000 stock of the Mexican Light & Power Company? A.—It was \$35,000 of the Mexican Light & Power.

Q.—That is quite right. \$35,000, so that altogether there was 45 and 35 of these two stocks? A.—Yes.

Q.—And those 45 and 35 are part of the 450 and 350 in this sale transaction? A.—Yes.

Q.—Now then, leaving that transaction and coming to the one in connection with the sale of these securities. The sale to the Prudential Securities Company is the sale that is mentioned in the large book? A.—Yes, it is the same sale.

Q.—And that was a sale which was brought about by the protest of your Department against the holding of this unauthorized stock? A.—It was.

Q.—That was the sale indicated in the agreement between the ten directors of the first part and the Manufacturers' of the second part of the 7th of March, 1904? A.—The same.

Q.—We will deal with that again, because I want the Manufacturers' to have the benefit of anything there is

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in the transaction. Now that agreement recites in the first place that these ten directors were members of the directorate for 1903, and as such members had authorized the purchase of the shares in the Dominion Coal Company, 1825, and of 202 shares in the Crow's Nest Coal Co., the purchase price therefor being \$240,000. There is no mention there of the Mexican Light & Power Co. 350, nor of the Electrical Development Co. 450? A.—No.

Q.—It was these two blocks of stock mentioned in the agreement which were unauthorized? A.—Yes.

Q.—Then I believe the purchase price is correctly set out there, \$240,000? A.—Yes.

Q.—Then the next recital is that the security is not an authorized investment, and the next recital that if sold at present prices they would show a loss to the company of about \$125,000, and the company has requested the parties of the first part to take up the said securities and make good the said loss, which the parties have agreed to do. Now let us see what they do. They agree with the Manufacturers' as follows: that they have secured the incorporation of the Prudential Securities Limited to act as a holding company for the purpose of carrying out the settlement of the transaction above mentioned. That the Manufacturers' will sell to the Securities Company the said coal stocks, that is the Dominion and the Crow's Nest; also \$35,000 common stock of the Mexican Power Company, Limited. That is the bonus stock? A.—The bonus stock.

Q.—That was purchased with bonds from the director, Beatty. And \$45,000 common stock of the Ontario Electrical Development Company; that is the bonus stock also purchased from Director Beatty? A.—Yes.

Q.—For the sum of \$240,000. Well then, so far as we have got with that agreement, the directors who assume the burden of the transaction get not only the 1825 and the 202 shares which were unauthorized, paying for those the price which the company had paid, but they get also all the bonus stock in respect of these other two transactions? A.—Yes.

Q.—Are you able to say whether at that time the bonus stock had a market value? A.—As far as I am aware it had not.

Q.—Are you aware whether or not it did afterwards have a market value? A.—Later on I think it became valuable.

Q.—Then this agreement—I will go on further with it in a moment—was submitted to your Department as being an agreement which was to carry out the purpose you had in view? A.—Yes.

Q.—Did you observe at the time this agreement was submitted to you the fact that in addition to taking over the unauthorized investments, paying the full value that the company had paid for them, the Prudential Company was getting these bonus stocks? A.—Well, I don't recollect distinctly, but I think I fully understood it at the time and I have no doubt I did.

Q.—Did that strike you as carrying out the purpose you had in view? A.—Fairly so.

Q.—Those two bonus stocks were assets of the company? A.—But of practically no value at the time.

Q.—Well, they were assets of the company? A.—They were, yes.

Q.—Then whatever they might happen to become worth thereafter, they could not ever be worth less than nothing, but whatever they might become worth afterwards these directors were to get the benefit of? So far as we have got that was the purport of the argument? A.—Yes.

Q.—Then the Securities Company is to pay \$100,000 or thereabouts in cash and to get a call loan to the extent of the balance, \$140,000; and they are to put up sufficient security for the call loan to fully secure the same, and those securities are to be authorized securities. Then they are to subscribe sufficient stock in the Prudential Company and to pay the same up either in cash or by securities and they are to be responsible each to the extent of 1-10. Then we come to this provision: "It is also further agreed that \$10,000 stock of the said Securities Company shall be allotted to the Manufacturers' as fully paid up as a further consideration for the said sale and for the said Mexican and Ontario Electrical Development stock? A.—Yes.

Q.—That is in other words the transaction was not just the taking up of the unauthorized investment, but it was a handing over of these bonus stocks and the taking by the Manufacturers' of \$10,000 common stock in the Prudential? A.—In the Prudential.

Q.—Now, subsequently, within a few months, we may say, in 1905 at all events, the Prudential was wound up? A.—It was wound up.

Q.—The purpose for which it was

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brought into existence ceased to be necessary to be carried out? A.—Yes.

Q.—Then what took place? A.—There was a sum of about \$8,000 returned to the company and some 70 shares of Mexican Light & Power stock.

Q.—Now in what respect had the Manufacturers' Company a right to receive this \$8,000, was it in respect of their share holding? A.—The holding of that \$10,000 stock in the Prudential Company.

Q.—They were entitled to receive the \$8,000 because of their stock holding to the extent of \$10,000 par? A.—Yes.

Q.—And the 70 shares of Mexican Light, what right had they to that? A.—The same; that went with the \$8,000.

Q.—In other words, what they received solely by virtue of their stock holding? A.—Yes.

Q.—Then the \$8,000 cash as a matter of bookkeeping seems to have been divided equally between the ledger accounts of the Electrical Development Company bonds and the Mexican Light & Power Company bonds? That is in respect of the accounts of these bonds to which the stock was a bonus? A.—Yes.

Q.—Let us see how that was done. The account value, Mexican Light & Power was \$45,000? A.—That was \$50,000 bonds and \$35,000 bonus stock. Then in this transaction of 1904 this bonus stock went over to the Prudential Company. That gets that out of the way. Then here is the \$4,000 cash that was received back from the Prudential Company and the 70 shares of the Mexican Light & Power Company, were sold for this.

Q.—For \$3,602.50? A.—These two taken together amount to that.

Q.—\$7,602.50? A.—Then there was a sale of 2,500 of the bonds, the original amount being \$50,000. That reduced the holding to \$47,500, and these two sums have been received. Then deduct these two sums from that, and it leaves the \$47,500 bonds held, and that is the price of them.

Q.—At the net cost after deducting these amounts? A.—Yes.

Q.—Now, of course, the 70 shares were not the whole of the bonus stock which the Prudential Company got on that transaction? A.—No.

Q.—The whole of the stock that they got was 350 shares? A.—350 shares.

Q.—Out of which the company got back 70? A.—70 shares.

Q.—So that whatever the balance was worth the Prudential would get the benefit of? A.—They got the benefit of that.

Q.—I suppose those were realized before the Prudential was wound up? A.—That is my understanding of it.

Q.—And the net result was that the Manufacturers' got back the \$8,000 and these 70 shares? A.—Yes.

Q.—That is so as far as you are aware, their full share of the winding up? A.—Yes.

Q.—Then, with respect to the Electrical Development Company, apparently that was all disposed of? A.—The bonus stock was all disposed of.

Q.—By the Prudential, before the winding up? A.—Yes.

Q.—Then, what was lost by the Manufacturers' in respect of this matter, was nil apparently? A.—I think so.

Q.—On the other hand there was a slight profit A.—I think so.

Q.—Assuming that \$10,000 was the fair value of these bonus stocks when they were handed over to the Prudential, because the company got in respect of their \$10,000 holding of stock \$11,262? A.—Yes.

Q.—That is the way the transaction is upon the books? A.—That is the way it seems to be. In reality now, it is \$40,375. It appears in the statement at \$35,625.25. That is this \$47,000 at 85.

Q.—And the Electrical Development Company is also worth something more? A.—Yes, 46 instead of 43.

Q.—Then, I am asked to ask you whether unauthorized transactions of this sort, so far as you are aware, appeared in the case of the Manufacturers' after you had cleaned this up? A.—I am not aware of any.

Q.—Then, the same matter occurs in this report with regard to the investment in securities outside of Canada, under paragraph 6 of the report Mr. Blackadar says: "This company has included in its stocks and bonds in the statement of business outside of Canada, the City of Toronto bonds in deposit with the Government of Newfoundland." That would be a deposit within the meaning of the statute and would have to be included in the total amount? A.—Yes.

Q.—Then, "a stock loan of \$90,000 to Osborne & Francis, on security of Chicago & Milwaukee Electric bonds has not been included. (Reads to "Canadian securities.") You have already said what you have to say about lending to Canadians upon foreign securities, and you have already stated the departmental view about these Canadian chartered companies with their operations carried on elsewhere? A.—Yes.

Q.—In neither case, as I understand it, do you view those as being bona fide

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Canadian investments? A.—We are so advised by the Department of Justice, although that point is still continuing to be disputed.

Q.—Is the Manufacturers', so far as that question is concerned, keeping within its powers with respect to foreign investments? A.—It is. Mr. Grant looked that up for me.

Q.—I want to return just for a moment to a subject we discussed briefly this morning. That is the question of impairment of capital and incidentally the inadequacy of the loading upon the premiums for expenses. Of course, the great feature which makes the loading inadequate, is the commission you have to pay for the securing of a new business? A.—Yes.

Q.—And the result of exceeding in your payment of commissions the amount that you have provided by way of loading is that you must take out of what ought to be set aside theoretically for participating policyholders? A.—It must come from some place, yes.

Q.—That is the first place it will be taken from? A.—I should think so, yes.

Q.—Then, if a company which is carrying on its operations in that way, persists long enough in that course of business, the result will be to take away all its profits, to wipe the whole of the profits out? A.—No, it might so happen that, notwithstanding, it would still not take away all the profits.

Q.—If your expenses exceed your receipts long enough, the profits will be first wiped out? A.—Yes.

Q.—That would, of course, be assuming that the additional expenses were taking up all the profits from the other sources.

Q.—I am assuming that the additional expenses are so great and the predominancy of expense over premiums continues so long that it does wipe out the profits, that may happen, of course. A.—Well, yes.

Q.—And would the profits be wiped out before the capital is impaired as a matter of insurance bookkeeping? A.—It would, yes.

Q.—That is clear? A.—Yes. At all events until the profits have been declared; once the profits have been declared then the expenses are not going to affect the question.

Q.—Yes, I suppose that would be so. Then how does that consist in your view with the contract under which the participating policyholder takes? A.—Well now that will depend upon the nature of the contract, what the contract is. I think you will generally find that under every contract the profits are de-

clared by the directors, and it is such profits as the directors declare that the policyholder is entitled to.

Q.—Has not the policyholder the right to expect that whatever normal profits his premiums earn will be declared? A.—Yes, he has a right to expect that.

Q.—Then if you introduce an expensive system of obtaining new business and a consequent inadequacy of loading, are you not interfering in that sense and to that extent with what the policyholder has a right to expect? A.—What he has morally a right to expect, but that is different from what he may legally have a right to expect.

Q.—I quite agree with that. A.—There is that difference between the two.

Q.—There is that margin of safety in the terms of the contract itself? A.—Yes.

Q.—Which prevents you saying there is a technical breach of the contract, although the policyholder is morally entitled to the profits which are so dissipated? A.—Morally entitled, yes.

Q.—Now this is a report of Mr. Blackadar's also in respect of the Manufacturers', bearing the stamp of the Department of 14th June, 1901. If you are not familiar with that I would like you just to run your eye over it before I ask you about it. Mr. McLaughlin states that this report is made in respect of the Manufacturers' before its reorganization and that it is working under an entirely new charter. That does not at all affect the question I am going to ask, but I am personally willing that Mr. McLaughlin should have that statement made? A.—I think the correction Mr. Blackadar mentions there was actually made.

Q.—Now this report begins, "In the accounts of this company," that is the Manufacturers' Life, "there is an item of \$43,234.56 of cash paid out to Mr. Gooderham which had not been entered in the statement of expenditure." "This is entered in the books under the heading 'Commuted Commission re Leslie Mortgage.'" (Reads to "Will be ready Monday.") Mr. Blackadar was not able to produce the statement which it was said was to be ready on the following Monday, and I think Mr. Blackadar's statement with regard to that was that he probably saw it at the company's office, but did not bring it away with him. Do you remember anything about that statement? A.—Not at all.

Q.—Do you remember anything about the transaction itself? A.—I remember

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hearing of the transaction, but beyond that I have no recollection.

Q.—Now this report does not go behind the item, but transfers it or proposes its transfer to its proper account? A.—To where it should be.

Q.—Now I ask you to go behind the transaction itself altogether. What right had Mr. Gooderham in the first place, so far as the transaction was disclosed, to be recouped in respect of his loss on the property that he had taken off the company's hands? A.—Apparently it was in pursuance of this understanding or agreement that was mentioned there, but apart from that I see no reason why he should. What he did apparently there was to take a piece of real estate which was of less value than it was being carried in the books, and also a couple of bad accounts, and put the cash in there. If that was the genuine transaction, that he bought the accounts and bought the real estate at that price.

Q.—There does not seem to be any reason for making good his subsequent loss in it? A.—No.

Q.—Then suppose you look at it as if there had been some agreement by which he was to receive commissions out of premium paid to head office, what do you say to that as a matter of insurance practice? A.—I know of no ground upon which the President of a company should be paid commissions out of premiums paid direct to the head office.

Q.—Can there be—agreement or no agreement—so far as policyholders are concerned, any justification for such a proposition as that a salaried officer of the company shall be remunerated by commissions in respect of premiums paid direct to the head office? A.—Oh, an agreement might be made and the commissions be a portion of his salary, to form a portion of his salary. That would not be an improper agreement, as far as I can understand, that he was to get a certain salary and certain commissions.

Q.—Assuming that he is being paid an adequate salary? A.—Then, I think, it is clear that he should not have any commissions.

Q.—And any agreement in that respect not being forthcoming, not being here for inspection, what do you say? Could such an arrangement be properly made in your opinion as an insurance man, in the absence of some express agreement founded upon a good consideration? A.—I don't think it could.

Q.—The way it appears in the corrected report for the year 1900, at page 215, is: "Paid for commuted commissions and for losses on investments of previous years \$43,234.56." That is the same item, is it not? A.—It is the same amount precisely.

Q.—And apparently the same item, as Mr. Blackadar has said, "The item will have to appear in our statement, otherwise there will appear a large deficiency." Now it is suggested by Mr. McLaughlin that that has something to do with this item of income: "Premium on increased capital \$43,608." Is there any connection between these so far as the statement shows or so far as you are aware? A.—I certainly have no knowledge of any connection between them.

Q.—Now what are these other papers that you have brought? A.—This is the letter from Mr. Phillips.

Q.—The letter of Mr. Phillips of the 19th of December, on the subject of industrial policies, to which Mr. Fitzgerald's answer has already been read. (Reads this letter). Mr. Ross will put that in its proper place in the exhibit. Is there anything else? A.—I think that is all. The other thing I was to look up was as to whether the National Agency had power to subscribe. I have not had time to do that.

Q.—There is one of the exhibits, No. 11, which is a statement compiled in respect of certain different companies for the years running from 1890 down to 1905. With respect to that statement I desire to make this observation; there is on the last page of the statement, a statement taken from the official report of net gains made by the companies on sales of securities from 1890 to 1905. That is compiled directly from the official reports and may be taken as being accurate in respect of the contents of those reports. With respect to the other items on the other pages, which form the bulk of the exhibit, the items that are carried out will probably need before they are accepted as conclusive, some actuarial checking, and I desire to say that in that respect the exhibit is not yet tendered as being exact or complete. I suppose we can get the exhibits at any time for the purpose of checking.

Then Mr. Blackadar is somewhat sensitive with regard to some verbal inaccuracies that he has found in the copy of his testimony and he has submitted a statement of those inaccuracies which I have not checked at all. Perhaps I may just put that in. For instance, there is one place where he has been

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made to say "Winnipeg" when he thinks he said "Waterloo." Another place where he has said "11th April" and he should have said "19th June." One place where he is made to say "Home Life" when he was speaking of "whole life insurance." I do not know that they are of any great importance, but still it is as well to have them accurate. That may be checked and if found accurate the corrections may be made?

THE CHAIRMAN. The corrections may be made and in the meantime the document will be marked as an exhibit. Is that your suggestion?

MR. SHEPLEY. Yes, I think so. (Exhibit 55). I am not yet through with Mr. Fitzgerald, but there are some gentlemen here who wish to leave on the 4 o'clock train and I think it is perhaps not convenient that I should take up another subject.

THE CHAIRMAN. After a conference with the counsel engaged, representing the policyholders and the insurance companies as well, and in view of the hope that considerable information will now come in from day to day, from the companies we will adjourn until Tuesday, the 17th of April, at 10 o'clock, here. The Easter week intervenes, otherwise the adjournment would not have been so long.

FOURTEENTH DAY.

Proceedings at Toronto, April the
25th, 1906, 10.30 a.m.

OPENING DISCUSSION AT TORONTO.

MR. SHEPLEY: With the permission of the Board, our intention to-day is to commence the inquiry into the affairs of the *Manufacturers Life Association*.

I have to offer an apology to the Board. An argument in which I am concerned, in the Court of Exchequer, which we had hoped to conclude last night, is not yet completed, but with the permission of the Board, Mr. Tilley will take the matter up for me during so much of the day as I am not able to be here. The inquiry will go on actively of course.

MR. HELLMUTH: Mr. Chairman and Commissioners:—Before the proceedings begin, I conceive it to be my duty to enter a protest against leaving the inquiry at the present stage into the Departmental affairs.

I do not mean to say I was not ad-

vised as soon as it was decided upon, but I was advised that the proceedings would not continue as had been intended at Ottawa last week, owing to the illness of the Chairman, an illness which we all very much regretted, but that during this week the proceedings would go on here into the affairs of the Companies.

At the time when I received that letter I wrote at once, acting as I believe in the interests of the policyholders, requesting that my learned friend Mr. Shepley would, as I have no doubt he has done, bring before you as Chairman, the Commission not then sitting, my protest against this alteration in the proceedings for reasons which had partly appeared during a certain stage of the Commission, and for other reasons, and, I subsequently received an intimation that the Commission would sit here to-day.

Now, gentlemen of the Commission, it appears to me that no reason has been given for this change. On the 30th of March last, the date of our last meeting in Ottawa, it was distinctly understood that the proceedings of the Commission would be resumed in Ottawa for the purpose of continuing the inquiry into the affairs of the Department there. That after the examination of Mr. Fitzgerald had been proceeded with by counsel for the Dominion, Mr. Fitzgerald would be placed in a position to answer such questions as I might see fit to put to him on behalf of the policyholders. That was the distinct understanding of the Commission at that date. I do not think there is any room for controversy about it. While an adjournment for a week might reasonably have been necessary, and nobody could object to it under the circumstances, there was no reason for an entire alteration of those plans.

It does seem to me that there is grave reason why the Departmental inquiry should be continued. In the first place it was the course originally adopted and approved of by the Commission, that the inquiry should begin in the Department, and then proceed to the individual companies.

Whether that was right or wrong is immaterial. It was a course suggested after no doubt careful consideration by counsel for the Dominion, and no one quarrelled with it. If it was right then, surely it is still right and proper. Surely if it was begun then it should be concluded as far as possible. There are no doubt several matters which very considerably

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startled the public and interested the policyholders which was brought out by Mr. Shepley's examination of Mr. Fitzgerald. Those are not necessarily all the matters that will be brought out by a continuation of that examination. There were certain affairs that perhaps to use a mild expression were hardly creditable to those concerned in them, disclosed. Are there others? Why if there are should they not come out? Why should not the advantage of that knowledge be given to the Commission now before going into the affairs of any of the individual companies?

Then, it was quite apparent, I do not know that I should use that word—it was quite apparent to me, and it may strike some of the Commissioners, or the whole Board, that it was apparent to them, that there were rather peculiar ideas of the duties of the Department in some respects. Are not the policyholders entitled to know what the whole ideas of the Department were in regard to those matters? Are they not entitled to find out just what knowledge of insurance matters generally, and of the affairs of the companies in particular, was possessed by the Superintendent of the Department? Is it possible, after this investigation has proceeded into the affairs of the companies, and we have all learned a good deal about insurance matters, that Mr. Fitzgerald, and the other members of the Department, will not acquire a similar knowledge, and how will they be able, if the inquiry is resumed, or how will the policyholders be able to distinguish between what knowledge was possessed by Mr. Fitzgerald before that inquiry commenced, and what he may have acquired since? And, is it not most material to the policyholders to know just what safeguards were placed around their interests by the affairs of the Department? It seems to me that that argument in itself is amply sufficient for continuing that branch of the inquiry.

Then, gentlemen of the Commission, you will remember that the legislation of 1899 was gone into to some extent at all events. One may be mistaken, but in the best judgment I could bring to bear upon the matter, no more hostile or inimical legislation in the interest of the policyholders was ever passed. Who was responsible for that legislation? Are we not entitled to know now from whence that legislation emanated? Who approved of it? What were the views of the superintendent upon it, and what were the views of

the Deputy Minister of Finance, and of the Minister of Finance, and of the Government of the day? Those are questions that it seems to me should be elicited now; not going back to them at a much later stage.

I am sure the members of the Commission will not think I am speaking at all as a matter personal to myself. I conceive it to be my duty, representing the policyholders of the Province of Ontario, and appointed by that Government, to exercise my judgment in regard to these matters. I feel that I would be recreant to the trust that has been reposed in me if I were merely to sit as an onlooker in the matter. But, it is not a question at all personal. Surely one should think of this. If a plan has been prepared, and the Commission as a body have approved of it, that should not be altered, it ought to be adhered to unless there is the consent or the approval of those who are also interested. It is a matter of no small importance to the interests of those engaged that they can fairly rely upon having carried out what has been agreed upon.

Now, my learned friends have the control, of course, of this investigation, no one disputes it, but the position that counsel for the Provinces would be permitted at all events, after counsel for the Dominion had asked a witness questions, to follow that up by perhaps inquiry that in their judgment would be pertinent to the proper elucidation of this matter, was never denied. If it was, there was absolutely no use in having counsel for these interests in the Provinces. But, it was understood that Mr. Fitzgerald would be handed over, as I may put it, as a witness to me, and to others. It was part of one's understanding, that one could get from Mr. Fitzgerald information on points which would help one in considering the position of these various companies.

My learned friend has had, so far as he has gone, the benefit of Mr. Fitzgerald's explanations as far as he has carried them. I say, without any hesitation, there were, on certain parts, without my learned friend carried that examination further (now that I have gone over the evidence) where it would have been pursued further, and where had I done that I would be in certainly a much better position to examine these witnesses when they came before me. If there was a point that was made clear during the examination of Mr. Fitzger-

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and it was the fact, emphasized I may almost say again and again, that his examination should be continued. There were any number of points in regard to which my learned friend himself said, I will take that up again, I will go on now.

We have only part of Mr. Fitzgerald's knowledge, or want of knowledge, on these subjects. I cannot conceive any good reason why that should not be followed out.

I assume, Mr. Chairman and gentlemen of the Commission, that there is another feature that cannot be altogether overlooked. That is the question of the greatest possible amount of public confidence in the method and conduct of the Commission. Of course the Commission must do what is right, and we must all do what is right, entirely irrespective of any one sense of public opinion, but there is no reason why we should not here exhaust as far as possible, it seems to me, the Departmental inquiry, before we take up the affairs of the individual companies.

I therefore respectfully press upon the Commission the request that the proceedings go on in the way they were begun, that we continue with our Departmental inquiry, and that Mr. Fitzgerald and Mr. Blackadar be directed to attend, either here or at such place as the Commission may determine, for the furtherance of the object.

I ask for further ruling on that point, and I do so, as I have said before, solely and only because I conceive it to be my duty, as the proposed course is contrary to what was arranged for, and what seems to me, as far as I can judge, in the interests of the investigation, or at least of the policyholders.

No reasons have been given, and I do not see what reasons can be advanced, for the alteration, merely because there was a week's delay.

MR. LEBEUF: May it please the Board. As representing the policyholders of the Province of Quebec, I must say that I am sorry I cannot join in the protest of my learned friend. No doubt it may at first sight seem strange to discontinue the examination of Mr. Fitzgerald and come here, but I suppose that the Commission, and the counsel who are engaged in this inquiry, know their business just as well, if not better, than we do. Is it in the interest of the policyholders that this course

should be taken? I think that is the point. I fail to see how the policyholders will suffer by this mode of procedure. It was even a question whether this Commission should not have started by going into the examination of one company, and then to another, and then to a third, and then finally examine into the affairs of the Department at Ottawa, because it has been shown that statements have been shown that would probably injure companies, and they did not have a chance of answering what was brought against them. If we had commenced with the companies, and it was suggested there was anything wrong, there would have been an opportunity for them to have produced their witnesses, and have had them examined.

I do not think it is for us to decide whether the course that has been taken is the right one or not. I fail to see how the policyholders will suffer by this mode of procedure. No doubt we shall have a chance of cross-examining Mr. Fitzgerald later on. But, it is the report that the public will be looking after, more than the proof that will be taken, so that it makes no difference whether we cross-examine Mr. Fitzgerald in a few weeks hence, or cross-examine him now; it will make no difference.

MR. SHEPLEY: Nobody is more sensible, if I may say so, of the desirability that the proceedings of the Commission should inspire public confidence, (to which my learned friend has referred), than my learned friend who is associated with me, and myself; nobody can be more satisfied of the prime necessity for that. But, the method by which, or the means by which public confidence may be inspired, is by looking at the conduct of this investigation as a whole, not piecemeal. My learned friend does not suggest that there is not going to be a complete investigation into the affairs of the Department, and into the methods of the Department. My learned friend does not suggest anything except that it does not please him that we should for a time postpone the further examination of the Department, and proceed with the active investigation of the companies.

At the beginning of this inquiry I besought my learned friend to co-operate with me in making the inquiry thorough. I hoped he would do so. I do not know what my learned friend's desires may be. Whether his

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instructions are to promote the thoroughness of the inquiry, or whether his instructions may be to criticize at every turn in the investigation the methods that are adopted. I do not know that it has been definitely determined that my learned friend's status here is such as to entitle him to protest from time to time against the course that may be taken by the counsel advising the Commission.

I am not going to take the trouble, because I do not think it appropriate or necessary, to vindicate my own desire, for an honest and thorough inquiry. I leave that for the result. When the inquiry is over, everything the Commission have done, including what my learned friend Mr. Tilley and myself have done, will be the legitimate subject of public criticism. Until that time arrives I should have hoped that those who desired a thorough inquiry would rather co-operate than hamper, would rather co-operate than offer hostile criticism at every stage of the investigation. I have no apology to offer nor excuse to make. It seemed to us, as we represented to the Commission, in the public interests, that this slight temporary alteration in the original plans laid down, should be made. When the work of the Commission is over it will be seen whether or not that was justified.

In the meantime I have nothing further to say, except, that so long as I am entrusted with the conduct of this inquiry I shall have to act as seems in my judgment best in the public interest.

MR. HELLMUTH: I do not think there is anything which I said that would have justified, if it does justify, the attempt at criticism, that I had anything to say about the honesty of the purpose of his investigation.

If my learned friend's concluding remarks mean that I am not to say anything, that I am simply to accept what goes, there will be very little use of my being here. I do not doubt for one moment in the least, that my learned friend is acting as he believes to be best. I have never suggested otherwise. I do not think a word that fell from me would suggest anything of the kind. But, surely, I am not necessarily obliged to accept my learned friend's judgment as the final judgment. The Commission have to accept the responsibility of saying whether they will depart from the ruling or not. I do not think it is justifi-

able to say I had nothing to criticize. There have been occasions when my learned friend has not put it that way. When there was a change in plan my learned friend will surely give me credit for saying that I at once objected to that change. It is only my duty to put before you why I do it. If the Commission does not recognize that I have any right at all in reference to the matter, why, I must bow to that, but, I think the position should be defined before it is said I should not say what I think ought to be done, when the course suggested is taken.

JUDGE MAC TAVISH: The question that has arisen now is one which we must deal with, and I do not think it involves much difficulty. Mr. Shepley has been appointed by the Government to elicit the facts, and to aid the Commission in the prosecution of the investigation. As Chairman of the Commission I feel that I would not be acting in the public interest, or discharging my duty as a Commissioner, if I attempted to interfere with his conduct of the investigation. We should not say to him, "you must proceed with the examination of this witness for a certain time, you must not examine another witness until the examination of the first witness is concluded." It seems to me we would be open to the imputation that we were unduly interfering with the prosecution of the inquiry, if we took that position.

We want this inquiry to be thorough, to be wide in its scope, and for that reason every latitude should be allowed to counsel charged with the duty of conducting the inquiry, and eliciting the facts that have been directed to be inquired into. I notice that in the House of Commons, when a question was asked as to the proceedings here, it was answered that it would be largely on the lines of the proceedings of the Committee of the State Legislature of the State of New York. If any person looks over those proceedings he will see that it was quite exceptional to entirely conclude with one witness before calling another. However, my view is based upon the fact that Mr. Shepley has the conduct of the inquiry. I think we should not interfere with his conduct of it at the present time.

MR. TILLEY: I will call Mr. Junkin.

JUDGE MAC TAVISH: You will call the Manager of the *Manufacturers Life*?

MR. TILLEY: Yes my lord.

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INQUIRY INTO THE AFFAIRS OF
THE MANUFACTURERS' LIFE
ASSOCIATION.

R. J. McLAUGHLIN, K.C., and MR.
R. L. JOHNSTON, appear as coun-
sel for the Manufacturers' Life As-
sociation.

JAMES F. JUNKIN, sworn. Ex-
amined by MR. TILLEY:—

Q.—You are the manager of the
Manufacturers' Life Insurance Com-
pany A.—I am.

Q.—How long have you occupied
that position? A.—Since the forma-
tion of the company.

Q.—When was it formed? A.—In
1901.

Q.—And prior to that what position
did you occupy? A.—Managing Dir-
ector of the old Manufacturers' Life.

Q.—What became of that company?
A.—It with the Temperance and Gen-
eral went out of existence, and the
Manufacturers and Temperance and
General Life took the assets and busi-
ness of the two companies over.

Q.—That is in 1901, the Manufactur-
ers' Life, of which you had been the
Manager, and the Temperance and
General—the assets and the goodwill
of their business was transferred to the
Manufacturers and Temperance and
General Company which was then in-
corporated? A.—Yes.

Q.—It was incorporated I under-
stand by a statute of the Dominion
Parliament. A.—Yes.

Q.—It is the statute in 1901, and the
name then was the Manufacturers and
Temperance and General. When was
that name changed? A.—About the
same time, in that same year 1901, by
an Order-in-council.

Q.—I see the name appears in the
blue book for 1901, as the Manufac-
turers' Life Insurance Company, so
that the change would have been made
before December? A.—Before Decem-
ber.

Q.—And that was as you say by an
order-in-council? A.—Yes.

Q.—You say that prior to the amal-
gamation of the old companies and the
formation of the new company, that
you were the Manager of the Manu-
facturers' Life? A.—Yes.

Q.—Were you a Director of it? A.—
I think I was.

Q.—So that you were Managing Dir-
ector of that company? A.—Yes.

Q.—And how long had you been
Managing Director of it? A.—From
May, 1895.

Q.—To July, 1901? A.—Yes.

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Q.—And prior to May had you been
associated with the company—prior to
May, '95? A.—Yes, I was General
Agent of the company previous to that,
in the Province of Quebec.

Q.—Then for how many years were
you associated with the Manufactur-
ers' Life—that is the old company? A.
—From the 1st of November, 1892.

Q.—Was that when it was formed?
A.—No. It was formed in about July
or August, 1887.

Q.—So that it had been in existence
about five years before you were asso-
ciated with it, and prior to '95 had
you had any conduct of the manage-
ment of the company, or anything to
say as to the policy of the company?
A.—Only in respect to its foreign busi-
ness. As general agent I was con-
ducting foreign business.

Q.—Do you mean to say by foreign
business outside of Ontario? A.—Out-
side of Canada.

Q.—I thought you spoke of the Pro-
vince of Quebec as being your field?
A.—That was my main agency. I
was given permission to do foreign
business as well.

Q.—Were you in charge of the
whole the Province of Quebec? A.—
Yes.

Q.—So that you were in charge of
the Province of Quebec, and you were
also in charge of the foreign business
of the Manufacturers' Life? A.—Yes.

Q.—Which then consisted of what
field? A.—The West Indies.

Q.—And you then were the person
whom to some extent at any rate di-
rected the foreign policy of the com-
pany as to its foreign business? A.
—Only as agent.

Q.—In such matters, and seeing
that they were carried through? A.—
Yes.

Q.—Who were the persons that con-
trolled the Manufacturers' Life In-
surance Company prior to 1895 when
you became the Managing Director
of it? A.—The shareholders and the
policyholders.

Q.—Had the policyholders any vot-
ing power in the company? A.—I
believe they had in the old company
—yes.

Q.—I see that in the Act incor-
porating the old Manufacturers' Life
Insurance Company, which you were
right in saying was passed in 1887,
chapter 104 (50 and 51 Victoria),
there is the clause as to the voting
rights of policyholders. It is section
5. And, by it all holders of policies
who are to participate in profits,
though members of the company and

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entitled to attend and vote, and every holder of a policy for a sum not less than one thousand dollars shall be entitled to one vote for each one thousand dollars of his policy, with a clause that the husband or father holding a participating policy on his life for the benefit of his wife or children shall be a member of the company. Under that clause or section in the Act of Incorporation do you know whether any policyholder's vote was ever recorded in connection with the old Manufacturers' Life Company? A.—There were policyholders attended the annual meeting, but the elections were so unanimous they were generally conducted by unanimous vote.

Q.—So that no vote that you remember of now was ever recorded where the policyholders voted, and a test was made of the number who were there to vote? A.—No, none that I remember of.

Q.—Any acts of the annual meeting, resolutions, and so on, would all be adopted by unanimous consent? A.—Yes. The Chairman was generally asked to cast one ballot.

Q.—Then who held the control of the capital stock of the old Manufacturers' Life? A.—No one held control.

Q.—Are you referring to any particular year, or up to the time that it amalgamated? A.—Up to the time that it amalgamated. I do not know that any individual held control.

Q.—What was the total number of shares, do you remember? A.—10,000 I think.

Q.—In the blue book for the year 1900, which would be the last blue book containing any returns I suppose of the Manufacturers' Life Insurance Company to the Government? A.—Yes.

Q.—At page 467, the list of shareholders is there given, and the total number of shares in the company was 10,000 shares, but in the Blue Book of 1899, at page 452, the total number of shares would seem to be 6,210? A.—Yes, the capital was increased during that year.

Q.—And it was increased from 6,210 shares issued, to 10,000 was it? A.—Yes.

MR. McLAUGHLIN: The authorized capital was not increased, but the paid-up capital was increased.

MR. TILLEY: The balance of the unsubscribed shares were subscribed for? A.—Yes.

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Q.—And how was the stock of the company—was it fully paid or partially paid? A.—Twenty per cent. paid.

Q.—So that the balance of the shares would be subscribed and paid up. Was that done in view of the amalgamation that was to take place? A.—No, it was not.

Q.—When was the amalgamation of the companies decided on? A.—Early in the year 1901, I believe.

Q.—And how long before that had it been in negotiation? A.—I think not more than a month or six weeks.

Q.—You think there was not more than a month or six weeks elapsed from the time it was suggested until it was carried through? A.—There had been some indefinite talk about it before that, but nothing very definite.

Q.—At any rate you say that this subscription for the balance of the stock was not done in any way in connection with the amalgamation of the two companies? A.—No. It had not been thought of at that time so far as I have any knowledge.

Q.—But subscriptions for that stock, or the bulk of that stock that was then issued? A.—It was mostly taken up pro rata by the old shareholders. They all had the opportunity of subscribing, but a few did not avail themselves of the opportunity.

Q.—Who was the largest shareholder then in the Manufacturers' Life. A.—I think perhaps Mr. Gooderham.

Q.—I suppose there is no doubt about that? A.—No.

Q.—There is no doubt of that. I see that in 1900 Mr. Gooderham held 3,253 shares, and the Central Canada Loan Company 2,825 shares. So that those would be the two largest blocks of stock would they not? A.—Yes.

Q.—Was the Central Canada at that time the absolute owner of that stock, or was it held in pledge do you know? A.—Well I could hardly answer that question. What year was that?

Q.—1900? A.—I rather think it was held in pledge.

Q.—Do you know for whom. A.—No. I could find out I think. I could not tell just offhand.

Q.—Have you the books here that would enable you to say? A.—Except the transfer books. I think they might throw some light on it.

Q.—In the preceding year I do not see any such block of stock as 2,825 shares or any similar amount. Can you say where that block of stock originated?

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MR. McLAUGHLIN: We will produce the stock ledger in a moment Mr. Tilley.

MR. TILLEY: By referring to the stock ledger of the old Manufacturers' Life at page 105 you find that this number of 2,825 shares is made up by transfers from different parties to the Central Canada? A.—Yes.

Q.—The transfers being as follows: On July 25th. Charles D. Warren old 150 and new 91, making 241 shares; on the 26th of the same month, George Gooderham in trust old 5 shares; July 26th the same date, George A. Cox new 2,300 shares; on the same date J. F. Junkin new 95 shares; and on August the 11th J. F. Junkin old 95, new 11, making 106 shares, and on August 29th J. W. Flavell old 78 shares; making the total 2,825 shares? A.—Yes.

Q.—These words old and new indicate whether the shares were of old stock, or stock subscribed for in the year 1900? A.—Yes.

Q.—Can you tell me the exact date when that new stock was subscribed? Would this book show you? A.—The minutes would show.

Q.—Mr. Winter refers to the minute book of the Manufacturers' Life Company at page 535, where this entry appears, re issue of new stock. This matter was again discussed, and it was resolved that 3,790 shares equal at par to \$379,000 of the unissued capital stock of the company be offered for subscription as below mentioned at a premium of \$12 per share, making the price of each share \$112, such price to be called in or made payable as follows: The premium of \$12 per share to be paid on or before March the 15th, 1900, \$20 per share to be payable in four equal instalments of \$5 per share, each, on the first days of June, August, October and December, 1900, I suppose that is. Would that be 1900? A.—Yes, if that is the date of that minute.

Q.—That is under date 24th January, 1900. The entry goes on, "With the option to the subscribers to make such earlier payment as they may desire, the balance, namely, \$80 per share, to be called in by the Board of Directors in such way and from time to time as required, the said shares to be offered in the first instance to the present shareholders of the company, who shall be entitled to hold a pro rata allotment in accordance with the number of shares held by them respectively, provided however that no fraction of shares are to be created." And that was carried? A.—Yes.

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Q.—That was on the 24th January, 1900. A.—Yes.

Q.—Then pursuant to that the balance of the shares were all taken up. A.—Yes.

Q.—Then can you tell me how it is that Mr. George A. Cox comes to obtain 2,300 of those new shares?

MR. McLAUGHLIN: The Toronto Stock ledger will show that.

MR. TILLEY: Mr. Cox' stock account is at page 102 of the stock ledger? A.—Yes.

Q.—And that ledger shows that at the time that new stock was issued in 1900 Mr. Cox held how many shares in the Manufacturers Life Company? 520 does it not? A.—520.

Q.—Then on July the 26th, 1900, there is an item, to stock, and in the debtor column under the heading shares, 2,300. Does that mean that he subscribed for those 2,300 shares of the new stock? A.—I could not say. It would appear so.

Q.—There were how many shares subscribed for at that time? There were 3,790 to be allotted pro rata to the shareholders. Can you say how it was that Mr. Cox got 2,300 of those? A.—I think it is largely accounted for by his acquiring Mr. Gooderham's rights.

Q.—Then when did Mr. Cox acquire Mr. Gooderham's rights? A.—It must have been somewhere about that date.

Q.—That is to say Mr. Gooderham sold or transferred, at any rate you suggest to Mr. Cox his right to take up the new shares? A.—Yes.

Q.—Now was that a transaction that you knew about, or are you just suggesting that? A.—Well I knew that there was a transfer from Mr. Gooderham.

Q.—What was transferred from Mr. Gooderham to Mr. Cox? The right to new shares, or was there any larger agreement than that — any larger transaction than that? A.—He transferred the bulk of his holdings to Mr. Cox.

Q.—Were you a party to that negotiation? A.—No.

Q.—Were you conversant with it before it transpired? A.—No.

Q.—Not even consulted about it? A.—No.

Q.—Was any agreement prepared that you or your company has in connection with that matter? A.—None.

Q.—You have never seen the agreement under which Mr. Cox acquired the shares? A.—Never.

Q.—As a matter of fact there was no transfer by Mr. Gooderham to Mr. Cox of these shares in the Manufactur-

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ers—that is his old shares—until long afterwards was there? A.—No.

MR. McLAUGHLIN: The stock ledger will show it.

MR. TILLEY: That is a fact. There is no question about it. It is not long after the new company was formed was it? A.—I cannot say positively.

Q.—Well, let us assume that that is the case for the present, and not bother further with it, because we will take that up later. Then will you show me Mr. Gooderham's account here, showing his stock. By referring to Mr. Gooderham's account, page 93, it indicates to you, does it, that he did not take up his new shares? A.—Yes.

Q.—That he had how many shares at that time? A.—3,074.

Q.—Then that would not entitle him to as many as 2,300 new ones, would it? A.—He had 3,124 in May, 1901.

Q.—But in the meantime he had got some additional shares—he had got 100 and sold 50? A.—Yes, he had another account.

Q.—So that he had other shares standing in his name besides his personal shares—he had other shares under the heading Trust Account? A.—Yes.

Q.—And you say that it was from these shares Mr. Cox got his 2,000 new shares at any rate? A.—Yes.

Q.—And that was by reason of some agreement that existed as far back as 1900 whereby Mr. Cox was becoming the purchaser of Mr. Gooderham's holding of stock? A.—So I understood.

Q.—Do you know how long before 1900 before that allotment of stock, Mr. Gooderham and Mr. Cox had entered into that arrangement? A.—No, I do not.

Q.—You say it was an entirely private matter between them? A.—Yes, I never heard of it until after it was all accomplished; as a matter of fact I was in the Maritime Provinces at the time.

Q.—What time are you referring to now? When the stock was increased? A.—When the agreement was made between Mr. Gooderham and Mr. Cox.

Q.—Then for what purpose were these shares transferred by the different parties to the Central Canada? In the month of July, 1900, immediately on the issuing of the new stock was it not? A.—Yes, according to the date.

Q.—For what purpose were these transfers made? A.—Well I could not

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say. They were made by various persons.

Q.—Two were made by you? A.—Yes.

Q.—For what purpose were yours made? A.—In all probability I was getting a loan on them.

Q.—Can you verify that in any way? A.—I could not just now, but I could this afternoon.

Q.—Was this not a transaction in which these were all parties with some common interest? A.—As a matter of fact, most of them I think were the property of Mr. Cox.

Q.—Then were these that you transferred the property of Mr. Cox? A.—I could not say offhand.

Q.—Could not you in any way verify that? A.—Yes, I can. I do not know that I can from the records here. Perhaps I could from my own account.

Q.—Where is your own account? A.—I think they were probably a sale to Mr. Cox.

Q.—I would rather you would find out if you can in some way. There must be some way of ascertaining that.

MR. McLAUGHLIN: Will it do to give the information after adjournment?

MR. TILLEY: That will do if we cannot do better. We would like to clear up as we go along.

MR. LANGMUIR: Was the transfer partly old and partly new?

MR. TILLEY: That transfer was partly old, 95 old shares and 11 new shares.

MR. LANGMUIR: And I suppose the others too?

MR. TILLEY: In some cases old and new; in other cases all new, and in other cases all old.

WITNESS: I think it is quite likely that it was a sale to Mr. Cox.

Q.—Do you say that you cannot verify it here, because we must not leave too many things to go over? A.—I cannot verify it here.

Q.—It is impossible for you to verify that transaction from the books that are here? A.—Have you the transfer books, Mr. Winter? That might throw some light on it. (Handed to witness.)

Q.—It is dated July the 26th and August the 11th, 1900. There were two transfers. I see by page 103 that your own holding of stock in July, 1900, was how many shares? There was a balance of 95 on June the 9th.

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Of necessity those would be old shares. That is June 9th of the previous year, is it not? This is the entry at page 103. While that appears to be out of order, that is some item being made for January, March, April, then June, and then back to January again. The last items which appear to be out of order were not transfers, but were entered afterwards. Is that right? New subscriptions? A.—Yes.

Q.—So that those new subscriptions were entered in between the item of June the 9th and the item of July the 26th sometime? A.—Yes.

Q.—Can you tell me how that came about? Was the stock actually subscribed? January 30th. That must be a transfer. That cannot be new stock? A.—That was Mr. McBain of Montreal wrote me, or transferred his rights to me to take the stock up for him; he did not want the new stock.

Q.—So that you got a transfer from Mr. McBain for some new stock? A.—Yes.

Q.—And you got the transfer from National Trust right for new stock? A.—Evidently.

Q.—And you got a transfer on March 14th for one more share? A.—And March 65 shares.

Q.—Does that mean what you are entitled to yourself? A.—Yes.

Q.—So that shows how you got this new stock which you would subscribe for when the stock was put on the market? A.—Yes.

Q.—But the transfers to you of the right to that stock were dated before? Is that right? A.—Yes.

Q.—So that that would explain how these entries were made later on, because the right to take up the stock did not accrue at the time you had the transfers made to you? A.—Yes.

Q.—And they are dated as of the date you got them? A.—Yes.

Q.—Then you say that from the books that are here you cannot in any way explain what this transaction was on July the 26th, and August the 11th, when you transferred stock to the Central Canada? You cannot think what it was even so far as you are concerned? A.—Not positively, though I think quite likely that it was a sale to Mr. Cox.

Q.—Had you any agreement for selling to Mr. Cox at that time? A.—No.

Q.—Then is it right to say that this 2,825 shares that were transferred to the Central Canada at that time were Mr. Cox' shares? A.—I think so.

Q.—2,825. And you say at the same time Mr. Cox had some agreement,

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the terms of which you cannot give us, whereby he had the right to acquire Mr. Gooderham's other shares? A.—So I understood.

Q.—Amounting to how many? A.—Something over 3,000.

Q.—3,074. So that Mr. Cox at that time subsequently had control of the Manufacturers' Life, had he not? A.—No; the policyholders had.

Q.—Leaving that out? A.—He had control of the stock.

Q.—Mr. Cox at that time would control the voting power on the stock of the Manufacturers' Life Insurance Company? A.—Yes.

Q.—Then that was the condition that existed at the time that the agreement for the amalgamation was made? A.—Let us see.

Q.—There cannot be any question about that? A.—Unless he had parted with the stock in the meantime.

Q.—There is nothing to show that, either? A.—He and Mr. Gooderham together.

Q.—He and Mr. Gooderham together; and as you understood Mr. Gooderham had agreed to sell at any rate to Mr. Cox. You are not giving us the exact terms of the contract except as you understood them at that time, and you were the Managing Director of the Company. I think it is fair to take your understanding. Your understanding at the time was that that was the situation? A.—Yes.

Q.—So that in reality Mr. Cox did control the voting power of the stock at that time, providing his arrangements with Mr. Gooderham was such that he should vote on it in the meantime? A.—Yes.

Q.—But that Mr. Gooderham should vote as he desired, he having agreed to buy it. Who were the officers of the Manufacturers' Life? A.—I was Managing Director. Mr. George A. Sterling was Secretary. Mr. George Gooderham, President. And I think Mr. C. D. Warren was Vice-President.

Q.—So that Mr. Gooderham was the President of the Company apparently. He agreed to sell his stock to Mr. Cox before July, 1900. Then the balance of the stock was subscribed, and after that the amalgamation agreement was made, and during the whole time, and until that was completed, Mr. Gooderham remained the President of the Manufacturers' Life.—A.—Yes.

Q.—He remained the President throughout. Then take the case of the Temperance and General. What condition existed there in 1900?

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MR. McLAUGHLIN: We will produce the books.

MR. TILLEY: You can only tell from the Blue Books, and the condition of affairs that existed when the transaction was put through, and you became the Managing Director. You would then get personal knowledge?

A.—Well, I had the opportunity of doing so.

Q.—I suppose you would acquire some knowledge as to the control?

MR. McLAUGHLIN: We can produce the stock-book to show.

MR. TILLEY: I notice that the list of shareholders of the Temperance and General for 1900 is given in the Blue Book for that year at page 506, and the Central Canada there seem to hold \$3,000 of stock. Re George Gooderham \$5,500; J. C. Kemp, Manager and M. Morris, Assistant Manager in trust \$20,00. And then some smaller sums, making in all a total subscribed stock of \$100,000. That was their capital was it not? A.—Yes.

Q.—So that it is clear there that Mr. George Gooderham, according to the list of shareholders had absolute control of the shareholders' votes there? A.—Yes.

MR. McLAUGHLIN: He had the majority of the shareholders' votes.

MR. TILLEY: Mr. McLaughlin points out the distinction that he had the majority, but he could not make the others vote as he wanted them to. You understood what I mean by the term "control?" A.—When I answered yes, I meant that according to the record he had the majority stock.

Q.—He could carry any vote he wanted to pass at the shareholders' meeting? That would be evident anyway? A.—I think the policyholders.

Q.—I am leaving out the idea of policyholders. I confined it to the shareholders. As to the shareholders he could? A.—It would seem so.

Q.—Do you know who held this \$20,000 of stock that stood in the name of Mr. Kemp, the Manager, and Mr. Morris, the Assistant Manager, in trust? That would be the Manager and Assistant Manager of the Canadian Bank of Commerce would it not? A.—I do not know.

Q.—Don't you know J. C. Kemp, and Mr. M. Morris, were connected with the Bank of Commerce in 1900? A.—I presume they were. I am not personally acquainted with either of the gentlemen.

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Q.—But that is a matter of common knowledge? A.—They are now at any rate.

Q.—Then do you know who owned those shares? A.—I do not.

Q.—Do you know whether the agreement that existed with regard to Mr. Gooderham's shares in the Manufacturers' Life covered his shares in the Temperance and General in favor of Mr. Cox? A.—I believe they did.

Q.—So that while apparently Mr. Gooderham had the control you think in reality at that time the control of the shareholders' vote in the Temperance and General would be with Mr. Cox as the purchaser of these shares?

A.—I cannot say that, because I do not know who had the voting power.

Q.—But you do know that Mr. Cox had contracted to buy the shares—he was to become the purchaser of the shares, and he did afterwards become the purchaser of them? A.—Yes.

Q.—Then after the amalgamation of the two companies went through all the old stock at any rate still remained in the name of Mr. Gooderham until after the amalgamation was completed, then the stock was ultimately transferred to Mr. Cox, or to whom he appointed? A.—Yes.

Q.—So that the purchase was actually completed in that way. Then would you give me the agreement for the amalgamation of the two companies?

MR. McLAUGHLIN: It is attached to the Act. It is in the statute.

MR. TILLEY: Mr. McLaughlin states that the agreement is in the schedule to the Act incorporating the new company? A.—Yes.

Q.—The agreement was made in 1901, the date not being filled in in the schedule. Was it not entered into until afterwards? Were you merely authorized to enter into the agreement? A.—I think we have the original document here.

MR. McLAUGHLIN: The Act will be sufficient I suppose?

MR. TILLEY: Certainly. All I want to do is to fix the date. The agreement itself I see is dated 2nd of July, 1901, and is between the Manufacturers' Life Insurance Company, called the Manufacturers' Company of the first part, the Temperance and General Life Insurance Company of North America, called the Temperance Company, of the second part, and the Manufacturers' and Temperance and General Life Assurance Company, hereinafter called the com-

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pany of the third part, and is executed under the corporate seal of each of the companies, Mr. Gooderham as President, and Mr. J. F. Junkin as Managing Director, signing for the Manufacturers' Company, and Mr. G. W. Ross as President, and Mr. J. S. Begg as Secretary, signing for the Temperance and General, and Mr. G. W. Ross as the President, and Mr. J. F. Junkin signing for the new company then incorporated. Then subject to comparing the agreement in detail later on, we may make this an exhibit. The Act is already in I am told. We will just keep this for the present for the purpose of comparing it and give it back to you. Besides this agreement of the 2nd of July, 1901, was there any other agreement signed relating to the incorporation of these two companies that you know about? A.—None that I know.

Q.—Either between individuals or between corporations? A.—I do not remember of any.

Q.—Can you say that none was to which you were a party? A.—Yes.

Q.—And you know of none to which any other parties became subscribers relating to the incorporation of a new company to take over the old two, or relating to the amalgamation in any shape or form? A.—I do not remember of any.

Q.—Who were the officers of the Temperance and General? A.—Mr. Sutherland was Manager or Managing Director, I am not sure which; the Honorable G. W. Ross was President, and Mr. Begg was Secretary. I do not know who was Vice-President.

Q.—Mr. Johnston asks me to ask you about the control of the Manufacturers' Life Insurance Company after it became incorporated. You say when it became incorporated, or soon afterwards, the stock was transferred from Mr. Gooderham to Mr. Cox, that gave him the control of the shareholders' votes. That control did not remain with him as I gather from the transfers of stock that I understand have been made? A.—No.

Q.—So that Mr. Cox has not now control of the Manufacturers' Life Insurance Company? A.—No, not at all.

Q.—I was going to come to that later, but it was asked I should bring it out here. Then you say that there was no agreement either with shareholders or officers of either of the companies except the ones you have mentioned, there being one between Mr. Cox and Mr. Gooderham for the pur-

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chase of stock, and this other agreement whereby the companies were to be amalgamated, which was made pursuant to the Act? A.—There was an agreement afterwards with Mr. Sutherland regarding his retiring allowance.

Q.—Was that an agreement that was intended to be made at the time the amalgamation went through, or was that something entirely subsequent? A.—I think it was subsequent.

Q.—Have you the agreement here? A.—Yes.

Q.—You can just tell from the agreement itself. Then the agreement that you refer to is one that you now produce, not dated is it? A.—I see there is a date on the back. in September? It was approved by the Executive Committee in September.

Q.—1901. You produce an agreement between the Manufacturers and Temperance and General Life Insurance Company and Henry Sutherland of Toronto, which by the endorsement on it appears to have been approved by the Executive Committee on September the 9th, 1901? A.—Yes.

Q.—And I suppose was executed immediately afterwards, so far as you know? A.—I believe so.

Q.—So that this agreement was made within a month or two after the amalgamation went through? A.—Yes.

Q.—Then leaving this agreement for the present it will be marked as *exhibit No. 56*. I will not read that for the moment. Was any other agreement then made or afterwards made between any shareholder or officer of either of the old companies, and the new company? A.—In what way?

Q.—Any way, relating to the old business with the new company, or any persons that were interested in the new company entered into for the purpose of carrying through the arrangement, or satisfying any person that objected of any kind at all, relating to that amalgamation—were there any other agreements signed than those you have told us about now? A.—None that I know of.

Q.—Any other officer of the Manufacturers' Life or the Temperance General settled with, or any agreement made with him? A.—No.

Q.—Was any made with Mr. Gooderham? A.—None in connection with the amalgamation.

Q.—Well, in connection with anything after the amalgamation went through then? A.—There was a bal-

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ance of his honorarium paid to him—\$1,000.

Q.—Was that made the subject of an agreement or negotiation? A.—Oh no, it was just paid the same as any salary would be paid. We overlooked it at the time of the amalgamation and we paid it afterwards; it was due to him and it was paid.

Q.—His honorarium as President. Then we will leave that too for the minute. We will deal with that later. Was there any other agreement, or any other person dealt with at all before or after the amalgamation? A.—No.

Q.—That covers everything that was done? A.—Everything so far as I have the slightest recollection of.

Q.—Everything so far as you know. And you say there is no copy of the agreement between Mr. Cox and Mr. Gooderham that has ever been on the files of the Manufacturers' Life Company? A.—None whatever.

Q.—And never been in your keeping personally? A.—No. I was never even informed of the terms of it.

Q.—It was entirely a private matter apart altogether from you? A.—Exactly.

Q.—It had nothing to do with the company so far as you as Manager would become aware of it at all? A.—Nothing whatever.

Q.—Then the Act to incorporate the Manufacturers and Temperance and General Life Insurance Company was passed in 1901, and is chapter 105 of 1st Edward VII. That created as you understood an entirely new and distinct company? A.—Yes.

Q.—The old company coming to an end, and the new one beginning, liable for the obligations of the old company in so far as the Act made it liable? A.—Yes.

Q.—Then it authorized the appointment of Directors, and as to the voting powers it began first with a provision that policyholders shall have votes did it not? A.—Yes.

Q.—That is section 13. At all general meetings of the company each shareholder present or represented by proxy, and who has paid all calls due upon his shares in the capital stock, shall have one vote for each share as held by him, and each proxy must be himself a member, and entitled to vote. Each person holding a policy or a policy of the old Manufacturers Company, or the old Temperance Company, whether such person is a shareholder or not, who by the terms of his policy is entitled to participate in profits, and who has paid all premiums due on such

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policy, shall be a member of the company, and shall be entitled to attend and vote in person at all general meetings, and shall have one vote for each \$1,000 held by him. That is the clause that gives the policyholders the right to vote in your company in the present time? A.—Yes.

Q.—I do not know that I asked you what the provision was in the Temperance and General Act as to policyholders voting. Had they the right to vote there? A.—I could not say.

MR. McLAUGHLIN: You have the Act here.

MR. TILLEY: Then just let us see what it is. Taking the Temperance and General first, chapter 97, 47 Victoria passed in 1884. I will read section 6 of the Temperance and General Act, but it need not be taken down. (Counsel reads sections 6, 7 and 14.)

That was the provision in the old Temperance and General Act, that each had a vote, each could vote by proxy so long as the proxy was himself entitled to vote, and be in attendance at the meeting to vote? A.—All the shareholders.

Q.—That is shareholders and policyholders both. It says every holder of a participating policy of the company upon which all premiums due have been paid, shall vote? A.—Any person.

Q.—It is only the subscriber to the guarantee fund, or the shareholder as you call him who can vote by proxy. Every policyholder in order to register his vote under the old Temperance and General Act would be required to come to the meeting and vote personally? A.—That is as I understand it.

Q.—Then so much for the Temperance and General. Then the Manufacturers' Life Company's Act of incorporation, being the one in 1887, under the heading of section 4, subsection 2 says. (Counsel reads subsection 2, also subsection 5.) So that in the Manufacturers' Life Act there was no power for a policyholder to vote by proxy. The policyholder in order to vote must come and attend the meeting and vote himself? A.—So I understand.

Q.—And then that same idea is carried into your Act now? A.—Yes.

Q.—And shareholders can vote by proxy, if the proxy is a shareholder, but policyholders cannot vote by proxy even by giving the proxy to a shareholder? A.—No.

Q.—They cannot register a vote except by attending in person and

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voting. Then that practically renders the policyholders' vote as not a very serious matter anyway doesn't it? A.—Well, we have a good many policyholders in Toronto.

Q.—But still it is not as serious a matter as it might look on the surface? They have not much to say about it after all as a matter of fact have they? A.—My experience in life insurance teaches me that policyholders never do take much interest.

Q.—So that whether the Act is restricted or not does not seem to come into play very much. They do not take much interest? A.—Exactly.

Q.—Can you give me roughly how many policyholders you have in your books at the present time that would be entitled to vote at your annual meeting? A.—Probably about 30,000.

Q.—About 30,000 votes that could be registered by the policyholders? A.—Yes.

Q.—If they all came and attended the meeting. So that while that looks to be a large figure, and looks to be a substantial control, there is nothing much in it is there? A.—In actual practice I believe there is not a great deal.

JUDGE MacTAVISH: Can you recall how many policyholders were present and took part in the proceedings at the last annual meeting—policyholders who were not shareholders?

MR. TILLEY: How many attended the last meeting? A.—Probably a dozen or fifteen.

MR. TILLEY: I am coming to that afterwards, as to the means of notifying them and so on. I just wanted to deal now with the amalgamation of these two companies, and what Mr. Junkin says is that while there seemed to be a substantial policyholders' vote, that it would not have much influence. It would not affect you much if you wanted to get control of a company, that there was a large number of policies issued by it, would it? A.—If some person took interest enough on the other side to gather them up, they could gather quite a few.

Q.—It would be rather expensive gathering them all into Toronto from the West Indies? A.—Even the Toronto ones would amount to considerable.

Q.—I suppose the 30,000 would mean those in the West Indies and China and Japan? A.—Yes.

Q.—It would be rather a serious undertaking wouldn't it? A.—To gather them all, certainly.

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Q.—Then the agreement that was ratified by the Act is given as a schedule to the Act, as Mr. McLaughlin pointed out, and is between the companies that I have mentioned, the two old companies, and the company to be formed, and it recites that the Manufacturers' Company, and the Temperance Company, have respectively heretofore carried on the business of life insurance companies, and that the new company has been incorporated for the purpose of carrying on the business of life insurance, and to acquire the business of the Manufacturers' Life and Temperance companies respectively, upon the terms set out, and so on. It states that the capital stock of the Manufacturers' Company was two million dollars, of which one million had been subscribed and \$200,000 had been paid up. So that as to the balance of the capital stock of the Manufacturers', you were rather in error. The whole balance had not been subscribed. They had only subscribed apparently up to one-half of the authorized capital of the old Manufacturers'? A.—Yes, the authorized capital was \$2,000,000.

Q.—So that when the new subscription was taken it was only taken up to a half of the total authorized capital? A.—To make up the even million.

Q.—That however you say was not in the contemplation of the amalgamation? A.—No. As you will see from the minute it was in January, 1900. The amalgamation did not take place until the middle of 1901.

Q.—But you do not know, or I understood from you that before the increase of the stock, or at least before the new subscription for stock was made, that there was the agreement between Mr. Cox and Mr. Gooderham? A.—Not before the subscription. My recollection is that immediately after the resolution was passed, in January, 1900, the notices were sent out to the shareholders inviting their subscription for the new stock. And some of them came in immediately; others were much slower.

Q.—Then what does it lead you to say about the agreement between Mr. Cox and Mr. Gooderham, as to its date? A.—My belief is that there was no thought of amalgamation at all at the time of that increase in capital.

Q.—There was no thought of amalgamation, and there was no agreement between Mr. Cox and Mr. Gooderham? A.—I do not think so.

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Q.—And the agreement between Mr. Cox and Mr. Gooderham you think was after the stock was offered for subscription to the old shareholders? A.—Yes, that is my understanding.

Q.—Was it in any way connected with the manner in which the subscriptions for stock came in by the old shareholders? A.—Not that I am aware of.

Q.—I thought you mentioned that the subscriptions rather indicated that they came in slowly? A.—Some of them did, yes.

Q.—Was it not being readily taken? A.—It was quite readily taken by some of the shareholders, and others paid no attention.

Q.—And was it the discussion about that that led to the agreement do you know between Mr. Cox and Mr. Gooderham? A.—I would not think so. I do not see how that would be so.

Q.—They were not connected at all? A.—I think not.

Q.—And you cannot say at what period that allotment of new stock in January, and the 26th of July when these transfers were made, that the agreement was made between Mr. Cox and Mr. Gooderham? A.—No, I could not say.

Q.—It would be sometime between those two dates? A.—Yes.

Q.—Then this agreement refers to the guarantee fund of the Temperance Company, and the \$100,000 all of which had been subscribed and paid up, and the authorized capital of the company was \$3,000,000 divided into thirty thousand shares of \$100 each. (Reads agreement.)

Then that being the agreement that it was proposed to sign, and which was afterwards signed and executed by all of the parties, you went to Parliament for an Act to authorize that to be done, and make the incorporation of the new company, and the taking over of the assets of the old company perfectly valid? A.—Yes.

Q.—Was there any objection so far as you know to the amalgamation by any shareholder in either company? A.—No; I do not know of any.

Q.—So that the acts that were done with regard to that so far as you are aware were all unanimous? A.—Yes.

Q.—And with the approval so far as you know now of every person interested in either company? A.—Yes.

Q.—There was no objection either

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from policyholders or shareholders? A.—No, I do not think we received a single objection.

Q.—Nor any opposition in any way? A.—No.

Q.—Then the Act was passed, and it by the first section creates certain persons into a corporation, and gives the corporate name, and appoints the same persons to be the first Directors of the company. It fixes the capital stock at \$3,000,000 divided into thirty-thousand shares of \$1.00 each, specifies the objects of the company, head office to be at Toronto, and gives the right to establish branches and sub-Boards within Canada or elsewhere as may be deemed expedient. Then by section 6 of the Act there is power to acquire the Manufacturers' Company, and the Temperance Company, and these companies may sell and convey to the new company their respective entire assets, business, and so on, upon the terms proposed in the agreement set out in the schedule to the Act. Then it recites how that agreement is to be executed, and the property then is to be vested by section. (Quotes sections 8, 9, 10 and 11.)

I think Mr. Junkin, that under the first sentence in this section 12, dealing with the number of Directors being less than 7, and not more than 25, that you have from time to time altered the number of your Directors since this Act came into force? A.—Yes.

Q.—Increasing the number in two or three different years? A.—Some years there have been an increase and some a decrease.

Q.—At any rate you have assumed to act under that, and I see by the second part of the same section there is a limit of \$5,000 on each policy put on the policyholder entitled to act as director? A.—Yes.

Q.—Then it is the next one that deals with voting, and I have read that already. Then there is a provision that Directors may pay all expenses in connection with the Act. I will read section 16. (Quotes section 16.)

I think you have acted under those sub-clauses in appointing committees? A.—Yes.

Q.—We will come to those later on. Then section 17 provides for the issue of paid-up policies in certain cases, and section 18 is as follows. (Quotes section 18.)

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name to the Manufacturers' Life Insurance Company? A.—Yes.

Q.—Then that agreement you say was duly executed, and thereby became operative by reason of the Act, and the new company became entitled to all the rights and assets of the old company. Then after that you say this agreement was executed with Mr. Sutherland. That is agreement exhibit No. 56. (Reads exhibit No. 56.) Were the payments made as required under this agreement? A.—Yes.

Q.—Are there any entries in your minute books relating to this agreement? A.—Yes.

Q.—I see it says: "Approved by the Executive Committee, September the 9th." I would like to have the entry relating to it. The entries that appear to be in the minute book so far as Mr. Winter has pointed them out to me, are: one that I notice myself is as follows: The first one is in the minutes of the Directors' meeting held on Wednesday, the 24th day of July, 1901. That was the meeting of the Directors at which the by-laws were submitted and approved, and then after those by-laws were submitted and approved, and certain other action taken in regard to different matters, this entry appears: Moved by Mr. James Mills, esconded by Mr. W. Strachan, that a retiring allowance of \$2,000 for five years be paid to Mr. Henry Sutherland on such condition as may be arranged by the Executive Committee. Carried." Then the other reference to the same matter is in the minutes of the Executive Committee of September the 9th, 1901, as follows: "Agreement with Mr. H. Sutherland regarding retiring allowance was submitted, and approved." So that that would be the approval that is recorded on the back of the document itself? A.—Yes.

Q.—And then the authority to go on and enter into the agreement, and negotiate the terms with Mr. Sutherland is contained in the first resolution I read? A.—Yes.

Q.—And that was left to the Executive Committee. Now that was done at the inaugural meeting of the company? A.—Yes.

Q.—What was the occasion of that? A.—Well, it is quite usual when a man has spent a large amount of time and faithful service with a company to give him a retiring allowance, I understand.

Q.—You say that it is a usual thing with companies where the Manager has

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given them for some time faithful service, and well-thought of, he should be given a retiring allowance? A.—Yes.

Q.—Then do you mean it to be inferred that that is the nature of this agreement, the simple transaction of giving a man a retiring allowance who has served good and faithfully? A.—Yes, with the additional provision that we are guaranteed his good will.

Q.—Was there anything that required that guarantee to be put in? A.—It was just a precaution.

Q.—Was it a precaution that facts had demonstrated might be necessary? A.—No, I cannot say that it was.

Q.—Was there any rupture at that time between Mr. Sutherland and the company, or the officials of the company? A.—Well, there would naturally be disappointment on either one side or the other. There were two managers for the old companies, and only one man could be Manager for the new company.

Q.—And then it fell to Mr. Sutherland's lot to drop out. And there was disagreement at that time was there not? A.—Well, in that way.

Q.—And you had experienced something, had you, that indicated that it would be well to have this contract with him? A.—No. I do not think I could say that.

Q.—It seems to me to be rather a peculiar provision for the ordinary case of a company showing its appreciation and good will to an old tried servant who was leaving, and desiring to give an honorarium as an expression of that good will—it seems to have him pretty well tied up, does it not? He is left to a Committee of Mr. Wood and Mr. Thomas Bradshaw, or the survivor of them as to whether the agreement is carried out, and if it is not properly carried out to their idea he is bound to return the money. Who was Mr. Bradshaw at that time? What position did he hold?

MR. McLAUGHLIN: He was not to return the money.

WITNESS: I would take the precaution, if any of our chief agents were leaving the company, to do that.

MR. TILLEY: Mr. Bradshaw was an officer of the company at that time? A.—He was actuary of the Imperial.

Q.—At that time he was consulting actuary, was he not, of your company? A.—Yes, for a short time.

Q.—He is down here for a salary of \$1,000 a year, so I suppose he had

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something to do with your company? A.—I think that was before the amalgamation.

Q.—At the same meeting, the previous resolution is that T. Bradshaw, consulting actuary from 1st January, to 31st December, 1901, including the services for the two old companies in connection with the amalgamation, should receive \$1,000. Then did his services expire, so far as your company was concerned, at the end of 1901? A.—I think that was the date.

Q.—So that he was only associated with your company for the six months after your company was formed? A.—Yes, that is my recollection.

Q.—And during that period he was consulting actuary? A.—Yes.

Q.—And otherwise his position was that of Manager and actuary? A.—Actuary and Secretary, I believe, of the Imperial.

Q.—Mr. Winter asks me to bring out the fact that he was the actuary that was appointed to make the valuation of the two companies? A.—Yes.

Q.—That is the old Manufacturers' Life and the Temperance and General? A.—Yes.

Q.—And that his services in that way were of a special kind? A.—Yes, in connection with the amalgamation.

Q.—And this fee of a thousand dollars was a fee paid to him to cover the general services in connection with that amalgamation work? A.—Yes.

Q.—But he was the Manager of another company that was controlled by Mr. Cox? A.—I would not say that.

MR. McLAUGHLIN: He would not say it was controlled by Mr. Cox.

MR. TILLEY: Do you hesitate? Do not let Mr. McLaughlin make you nervous? A.—I did not catch the tenor of the question. I was merely thinking of his official position in connection with the Imperial.

Q.—That was the fact? A.—He was the Secretary and actuary of the Imperial. That is my evidence.

Q.—And this Mr. Wood was the Director of your company, the other party named there, was he not? A.—Yes.

Q.—And was he a Director there representing any particular interest on your Board do you remember, or any particular holding of stock? A.—He was a stockholder himself.

Q.—But was he not representing Mr. Cox' shares at that time? Is not that the position? A.—I could not say that. He was elected as any other Director.

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Q.—But Mr. Cox himself was not a Director? A.—No.

Q.—And no other person was on the Board except possibly Mr. Wood, who would be representing him, was there? A.—I think not.

MR. HELLMUTH: Might I ask your honors to intimate, if you have thought of it, what hours you propose to sit?

JUDGE MacTAVISH: We will sit from half-past ten until 1 p.m. and from 2 p.m. until half-past four p.m. every day except Saturday.

MR. HELLMUTH: Are you going to sit during Monday of next week?

JUDGE MacTAVISH: That has not been finally determined, but we will determine that to-day.

(Adjournment, 1 p.m. until 2 p.m.)

AFTERNOON SESSION.

Proceedings resumed at 2 p.m.

(The Examination of Mr. Junkin continued.)

MR. JUNKIN: Would you excuse me I would like to make some slight alterations. I have been brushing up my memory. I find that Mr. Jaffray and Mr. Kenny came on our Board in 1899.

MR. TILLEY: In March 1899? A. Yes sir.

Q.—Was that the Annual Meeting? A.—Yes sir, the Annual Meeting.

Q.—So that the meeting I understand was about the date of the transfer between Mr. Gooderham and Mr. Cox? A.—It must have been before that as I take it.

Q.—The agreement between Mr. Gooderham and Mr. Cox, Mr. McLaughlin says about the date of the agreement? A.—Yes sir.

Q.—You say that by reason of that fact you come to the conclusion that you are mistaken in the date of the agreement? A.—Yes sir.

Q.—And that the agreement was earlier than you thought? A.—Yes sir.

Q.—How early was it having regard to that circumstance? A.—Either in the early part of 1899 or the latter part of 1898.

Q.—So that it must have been December of '98 or in the beginning of '99 that you made the agreement? A.—Yes sir.

Q.—Does that cover your statement with regard to that? A.—Yes sir.

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Q.—The other point is in regard to the Mann stock. I find that was transferred to the Central Canada for a loan to enable me to pay for my stock that I had been purchasing. Some of the Manufacturers' Life stock.

Q.—As Mr. McLaughlin suggests some of the new stock. It would not be some of the stock outside? A.—It was the new stock.

Q.—Newly issued stock? A.—Yes sir.

Q.—Does that complete every correction you want to make? A.—Yes sir.

Q.—Then referring to the first of these two matters, you say that Mr. Jaffray and Mr. Kenny were put on the Board as the result of Mr. Cox' agreement with Mr. Gooderham? A.—I would say it was, they were suggested by Mr. Gooderham.

Q.—They were suggested by Mr. Gooderham not by Mr. Cox? A.—No, not so far as we were concerned.

Q.—Did Mr. Gooderham tell you why he desired these two men to be on your Board? A.—I think it is quite likely he did.

Q.—You have no particular recollection of it? A.—No. I have no recollection of any particular conversation but I have a recollection that I understood it that way they were represented.

Q.—Representing Mr. Cox? A.—Yes sir.

Q.—As I understood you this morning that Mr. Wood was the only one on the Board as representing Mr. Cox would not be correct either? A.—No I intended this as a correction of that.

Q.—I presumed you did. So that Mr. Jaffray and Kenny were suggested by Mr. Gooderham to you? A.—Yes sir.

Q.—So that from what you say there was no secret in this agreement between Gooderham and Cox? A.—No.

Q.—It was a well known transaction by persons in the company? A.—Yes, that is in a general way. The details were not known.

Q.—The fact was known publicly? A.—Yes sir.

Q.—It was public property? A.—Yes sir.

Q.—That this transaction had gone through and that neither Mr. Gooderham nor Mr. Cox objected to speak about it or disclose it without giving any particulars, that is so is it? A.—Yes sir.

Q.—That clears up then something that I intended to ask you about, probably we will bring that up again.

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I see by the blue book of 1898 in which a list of the shareholders of the Manufacturers' Life Insurance Company is given at page 439 that Mr. Cox does not hold any stock at all. Have you got that account of Mr. Cox's? By the stock book account referring to the account under the name of George A. Cox at page 102 it is quite evident that Mr. Cox did not become a shareholder in the Manufacturers' Company until January 23rd 1899? A.—Yes sir.

Q.—When he bought 250 shares? A.—Yes sir.

Q.—Then he sold on the same date to Mr. Flavelle 154 shares and the same date to Mr. Pellatt 100 shares and then he bought from you 90 shares and then on February 4th sold 60 shares and there were just 26 shares standing in his name? A.—Yes sir.

Q.—Those 2,300 shares were transferred to the Central Canada and was that the old stock that was in Mr. Cox's name at the time of amalgamation went through? A.—Yes sir.

Q.—That is to say at the time the amalgamation went through Mr. Cox had standing in his name just 26 shares of the Manufacturers' Life stock? A.—Yes sir.

Q.—And the rest of his holdings were either in the name of the Central Canada or in the name of Mr. Gooderham, not having been actually purchased transferred to him at that time? A.—Yes sir.

Q.—Then you say of the shares transferred to the Central Canada at that time some of the shares standing in your name and transferred by you were merely pledged by you to the Central Canada, you being the pledger? A.—Yes sir.

Q.—Did you get them back from the Central Canada? A.—I think I did.

Q.—When, do you know. They don't appear to have come back from the Central Canada yet, probably they are carrying them yet? A.—No, they are not carrying them.

Q.—They may have been transferred to somebody else by the Central Canada? A.—Yes sir.

Q.—Let me see the Central Canada account. After that date that you transferred those, after you transferred them to the Central Canada they remained there apparently until the Companies were amalgamated. I see after the amalgamation the Central Canada transferred to you 50 shares on December 30th 1901 and 170 shares on February the 10th 1902 and 7 shares on January 2nd 1903; and these are the last shares transferred to you. But

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on February the 10th there was a transfer from the Central Canada to you of another nature. You transferred a hundred to them and they transferred back to you a hundred on the same date. Were those all your shares? A.—Yes I think they were.

Q.—Those were all your shares? A.—Yes sir.

Q.—I suppose you have something that would show just what your transactions with the Central Canada were? A.—Yes sir I can ascertain.

Q.—Then we will see whether that is at all material or not. Then Mr. Cox came into it in 1898. Do you know whether he bought any shares before the agreement with Mr. Gooderham. I see the first entry is January 1899. Now do you know from that date whether Mr. Cox had already made his agreement with Mr. Gooderham? A.—It would be somewhere about that time. I think a little before that.

Q.—You think it was a little before January 1899? A.—Yes sir.

Q.—So that apparently his first interest in any way as a shareholder in your company was by his agreement with Mr. Gooderham? A.—I think it was.

Q.—Then he remained largely interested in that way until what year? Where was that transferred to. Mr. Cox is not a shareholder now in his own name in the Manufacturers' Life? A.—I think not.

Q.—We will follow that up when we come to the stock in the new company. Then Mr. Jaffray and Mr. Kenny became Directors because of Mr. Cox's interest in the company and I suppose that it is fair to say that Mr. Wood did as well? A.—Yes sir the next year.

Q.—Then he became a director in what year? A.—March 1900.

Q.—He is still a Director? A.—No.

Q.—I mean Mr. Wood is still a shareholder? A.—Yes, sir.

Q.—When Mr. Cox parted with his large interest in your Manufacturer's Insurance Company, Mr. Wood ceased to be a Director? A.—Not immediately.

Q.—Well at the next Annual Meeting did he not? A.—Either the next or second after it.

Q.—Mr. McLaughlin says that he didn't cease to be a Director of the Manufacturer's Life until he became a Director of the Canada Life? A.—Yes, that is right.

Q.—So that when he became a Director of the Canada Life he didn't

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remain a Director of your company? A.—No.

Q.—At the Annual Meeting he dropped out? A.—Yes, sir.

Q.—Then do you say, referring now to the agreement with Mr. Sutherland, do you say there was not some objection raised by him to the amalgamation going through? A.—I don't know of any.

Q.—According to your recollection now do you say that this agreement with Mr. Sutherland was something that arose entirely after the amalgamation? A.—No, I would not say that.

Q.—Was his position in the new company discussed before the amalgamation? A.—Yes, sir.

It was decided then that he was not to be the manager. The first proposition was a joint management. We were discussing that between ourselves. We calculated it was hardly a practicable suggestion. The Manufacturer's Life Company being the larger company decided that I had a prior claim.

Q.—The Manufacturer's Life of which you had been the Manager being larger than the Temperance and General of which Mr. Sutherland had been the Manager it was a natural thing you would be the manager of the new company, and that was decided on? A.—Yes, sir.

Q.—Did he then, or before that was known, or after in any way raise any objection to the amalgamation? A.—Not that I know of. Not to the amalgamation.

Q.—What did he object to? A.—To a certain extent objection to dropping out.

Q.—That would be a matter between him and the officers and directors of the company? A.—Yes sir.

Q.—Outside of that did he take any part? A.—Not that I am aware of.

Q.—Prior to the amalgamation had any promise been made him that some provision would be made for him if the amalgamation was allowed to go through or if the amalgamation became a concluded arrangement? A.—Not that I am aware of.

Q.—Is the resolution that is in the minutes that happened so soon after the amalgamation, was that the origin? A.—It had been talked over by the Directors.

Q.—By the Directors? A.—Yes sir.

Q.—Demanded by Mr. Sutherland? A.—No, I cannot say that it was. The Directors felt it was only just that he had some consideration.

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Q.—He is dropped out and this agreement I suppose was prepared by the Company's solicitor? A.—I should rather think so.

Q.—Mr. McLaughlin says that he was not solicitor at that time. I suppose that is the fact? A.—Yes sir.

Q.—You said that Mr. Bradshaw was one of the parties appointed to value the assets of the two companies. Was he the only party? A.—Yes, he acted as Consulting Actuary for both companies and was asked to value the assets.

Q.—Was any agreement regarding that valuation or any definite arrangement concluded as to what basis should be adopted. Was there not some prior agreement to this one produced? A.—No. That was the understanding from the beginning. The assets were valued and the business. There is a great deal more to be valued than the assets. There is the business. One to two was the arrangement.

Q.—That is one to the Temperance and General and two to the Manufacturers'? A.—Yes, sir.

Q.—That was agreed on after Mr. Bradshaw made his report? A.—Yes, sir.

Q.—Was that a written report? A. Yes, sir.

Q.—Was anybody else a party to it—the making of the report and the proceedings before the report. You knew very well Mr. Bradshaw would make the report? A.—Yes, sir.

Q.—But he made up his figures with assistance from persons in your company that he would go to for that information? A.—Yes sir.

Q.—Was there any agreement that he was left to decide or that his valuation should be conclusive? A.—No, I think not. The idea on both sides was that we would wait his report to see what each company was worth.

Q.—So that Mr. Bradshaw's valuation was merely a tentative matter and that was done to give light to both companies? A.—Yes.

Q.—And after that the two companies would come to some terms? A.—Yes sir.

Q.—Would you turn up the minutes of the Manufacturers' that would relate to that agreement that would show how the matter was put through. The first entry, Mr. Junkin, appears to be on page 14 of the minute book of the old Manufacturers' Life Insurance Company. The first entry appears to be at page 13 of the minute book of the Executive Committee of the old Manufacturers' Company com-

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mencing 22nd February, 1901. The date of this particular resolution that I will read is 19th March, 1901, that as shown in the minutes of the Finance Agency, *re* Amalgamation with the Temperance and General Life. (Reads from "Draft agreement prepared by Mr. Z. Lash" to "Was submitted and approved.") And then in another book containing the minutes of the Board of Directors of the old Manufacturers' Company at page 10, dated February 6th. (Resolution read down to "For consideration by this Company.")

Then pursuant to that apparently the report made by Mr. Bradshaw and on page 11 under date of the 2nd of February, 1901, it was moved and so forth down to "North American." And that resolution was carried.

Then on page 21 of the same book. Manufacturers' Special Meeting of the Directors held on Friday, 8th of March, 1901. (Reads from "Mr. Bradshaw was again called" down to "The report was carefully gone over with Mr. Bradshaw and finally approved.")

Then on March 21, 1901, page 25. (Reads. "Re Draft agreement between the Manufacturers' Life Assurance Company" down to "Was submitted and approved.")

Then the rest seems to be comprised on page 27. The minutes of the meeting of the Directors of the old Manufacturers' Life on the 23rd of March, 1901. (Reads. Vice-President William Strachan was in the chair" down to "Managing Director.")

Q.—That would be yourself I suppose? A.—Yes sir.

Q.—(Reads to "to be executed and carried out.)

Then follow the minutes of a special general meeting 23rd of March 1901. (Reads. "There were present" down to "Referred to the notice hereto subjoined.")

Q.—That notice was signed by Robert Jaffray and J. F. Junkin, Managing Director. Do you know why that was not signed by the President? A.—He was absent.

Q.—Were these statements the result of Mr. Bradshaw's work that were given there or the regular balance sheets of the company at the end of 1900? A.—The result of Mr. Bradshaw's examination.

Q.—These show the Manufacturers' Life's assets and liabilities? A.—Yes sir.

Q.—The assets being \$2,252,764.42 and the liabilities \$90,581.79 less than that amount. That sum being the

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surplus of the assets over the liability?
A.—Yes sir.

Q.—And the statement of the Temperance and General being assets \$917,346.13 and the liabilities \$43,246.23 less than that, leaving a surplus of \$43,246.23? A.—Yes sir.

Q.—These two statements of the assets and liabilities you say Mr. Junkin were the ones prepared by Mr. Bradshaw and would be shown by his report? A.—Yes sir.

Q.—Have you it here? A.—Yes sir.

Q.—The outline of the proposed amalgamation is set out there, it reads as follows. (Read portion set out on pages 30, 31 and 32 of the book.) This was approved April 10th, 1901, and signed by R. L. Patterson Director? A.—Yes sir.

Q.—Then follows the minutes of meeting of the Directors of the Manufacturers' Life Insurance Company of the 23rd of March 1901. (The minutes were read in full.) These were approved and signed by R. L. Patterson on 10th of April, 1901? A.—Yes sir.

Q.—So that those were the meetings of the full company after call for the purpose of considering the amalgamation of the companies and the Directors immediately after them when this agreement was ordered to be signed? A.—Yes sir.

Q.—The last entry before the company was formed in the minute book is an extract from the minutes of the Directors' meeting at page 45. The meeting of the company being held on the 5th of June, 1901. (The minutes were read.)

The seems to be the way that the matter was put through with the Manufacturers' Life? A.—Yes sir.

Q.—That is an authorization to Mr. Bradshaw to make a special report valuing the assets and showing the work of each company and setting forth any matters that would be of special value in the sale of either company and the companies adopted that report making the basis one to two. That is for the Temperance and General one, and two for the Manufacturers'? A.—Yes sir.

Q.—So that there was one combined agreement carrying through this amalgamation, and this agreement was to be authorized by Act of Parliament? A.—Yes sir.

Q.—The references to the minutes are short in the Temperance and General. The first is in their minute book at page 255, 23rd of February, 1901. (Reads the whole of the minutes.)

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These would be the minutes of Mr. Sutherland's Company? A.—Yes sir.

Q.—The minutes of your company have no reference to that provision that was first anticipated that there should be joint management of the two companies? A.—Yes sir.

Q.—Minutes of March 8th, 1901, page 258 were read in full. Minutes of March 23rd. Special Meeting of Directors of the Temperance and General Life Insurance Company at page 259 were read in full. (Minutes of the 23rd of March at page 261 were also read in full.) (Minutes of the Meeting of Directors immediately after the former meeting were read in full.) (The Minutes of a Special Meeting of the Board of Directors on June 5th, 1901, page 264 were read in full.)

Q.—And this ended the old Company? A.—Yes sir.

Q.—That appears from the correspondence between Mr. Sutherland and the Company and from the resolutions that were read? A.—Yes sir.

Q.—What you say about this agreement with Mr. Sutherland was somewhat borne out. He was a retiring manager who was leaving and this was a pure honorarium for him and that is your recollection Mr. Junkin? A.—Yes sir.

Q.—Any clauses that were in it which seemed to tie down to loyalty to the company you seem to think were put in more from abundant caution than from any trouble that you expected after? A.—Yes sir.

Q.—Explain if you will the transaction between Mr. Gooderham and the Company about the \$1,000? A.—He had been receiving the honorarium as President of \$2,000 a year and this last year he had only received \$1,000 of that amount.

MR. McLAUGHLIN: Find out if that \$1,000 was paid for the first half of 1901?

MR. TILLEY: I see that in your minutes of February 4th, 1902, this item appears. (Reads from the minutes.) "The question of honorarium for Mr. Gooderham" to "in full claim." That is the item you refer to? A.—Yes that's my impression—my memory now. During the last year of Mr. Gooderham's presidency Mr. Jaffray was the First Vice-President and he was really the active man. He was away a good deal.

Q.—Mr. Gooderham had practically ceased having any interest in the company? A.—Yes sir.

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Q.—He had agreed to sell his stock to Mr. Cox and he was only nominally President and shareholder? He was not interesting himself so much? A.—Not to some extent.

Q.—How much was he receiving as President? A.—\$2,000.

Q.—How long was he President? A.—Almost from the beginning. In the beginning John Macdonald was President.

Q.—For these years he got \$2,000? A.—Yes sir the latter part.

Q.—Then up to 1900 up to the time he had made the agreement to sell his stock to Mr. Cox he had been receiving \$2,000? A.—Yes, sir.

Q.—And from that to 1900 he has had \$2,000? A.—Yes sir.

Q.—And from that time down to the amalgamation he was not doing the work, Mr. Jaffray was a more active man? A.—Yes sir the more active man.

Q.—Mr. Jaffray was signing these notices? A.—Yes sir. It was thought that he should not be paid this honorarium, that is for the whole of the year 1900.

Q.—That is for the whole of the year 1900 he was nominally President? A.—Yes sir.

Q.—At the Annual Meeting of 1901 was he elected President? A.—I am not sure of that,—yes he was, it was a year and a half really.

Q.—That is to say that if this thousand dollars was accepted it would cover a year and a half? A.—Yes sir.

Q.—He was insisting on \$2,000 and this was a counter offer? A.—Yes sir.

Q.—He not having done any work it was thought \$1,000 should cover it? A.—Yes sir.

Q.—And he accepted \$1,000? A.—Yes sir.

Q.—And that was the end of the matter? A.—Yes sir.

Q.—You have told us of any special agreement with any of the officers or any special terms that was arranged with them at the time of the amalgamation or subsequent thereto that would bear on the work of a company at that time or before that time. Any consideration for giving up their business or anything of that kind? A.—Nothing of that kind.

Q.—Nothing of that kind at all? A.—No.

Q.—And the company was formed in 1901. In July, 1901, a meeting was held at which the company was organized I suppose? A.—Yes sir.

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Q.—Have you that meeting? A.—Yes.

Q.—That was a meeting of the 24th of July. The first Directors that were appointed for the new company were the following I understand: Hon. Geo. W. Ross; E. R. Wood; J. F. Junkin; E. J. Lennox; A. J. Wilkes; H. M. Pellatt; Lloyd Harris; James Mills; R. L. Patterson; Hon. J. A. Ouymet; R. R. McLennan; William Strachan; Hon. J. G. Rolland; Robert Archer; Hon. W. W. LaRue; D. D. Mann; James Mason; R. Junkin; S. G. Beatty; B. F. Pearson. These were appointed in 1901. They all continued in 1902; and in 1902 A. P. Barnhill and William MacKenzie were added? A.—Yes sir.

Q.—And then all these Directors continued through 1903? A.—Yes sir.

Q.—And in 1904 E. R. Wood and B. F. Pearson were not re-appointed—either resigned or were not appointed—and C. C. Dalton; R. J. McLaughlin and D. B. Hanna were appointed Directors? A.—Yes sir.

Q.—Then those Directors continued through 1905 and in 1906 all those Directors were re-appointed with the exception of James Mills; J. A. Ouimet; Hon. Mr. Rolland; Mr. Archer; Hon. W. W. LaRue and A. P. Barnhill; and those are the present Directors of the Company? That is a full statement of the Directors? A.—Yes sir.

Q.—Immediately on the Company being formed a dividend was paid was it not for the rest of that half year on the basis of the new stock? A.—I think not, unless it was for the last of it payable on the 1st of July. Yes that is the date the old Company would pay its dividend.

MR. McLAUGHLIN: Really the dividends were paid after the amalgamation; they were the dividends of the old company.

MR. TILLEY: Was the declaration made of the list of shareholders as it stood on the 1st of July? A.—Yes sir.

Q.—That dividend was paid on the basis of the stock issued under the Act incorporating the new company? A.—Yes it would be the same as the 30th of June of the old company.

Q.—That is to say the stock was taken as 20 per cent. paid under the Act of Incorporation and the dividend of 4 per cent. for the half year was paid on that. That is right is it not? The resolution is in the minutes of the Director's meeting held after the company was formed on the 10th of July, 1901. And on the 10th July, 1901, the

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shareholders then were the shareholders under agreement? A.—Yes sir.

Q.—(Reads resolution.) So that this company when it was incorporated immediately commenced to pay a dividend? A.—It took the obligation of the old company.

Q.—There was no obligation? A.—There was a moral one. It was that far that the shareholders of the new company should be paid a dividend in the new company.

Q.—The Act described what these shareholders were to get. It said they were to get a certain number of shares for their old shares and those shares were given as 20 per cent. paid?

MR. McLAUGHLIN: They didn't get their new shares.

MR. TILLEY: They got the new shares the minute the agreement was signed? A.—In the agreement it provides that the old shares should be assigned to the new company and new shares allotted to them.

Q.—What the agreement said about that was as follows. (Reads from Section 3 of the Agreement as set out in the Act.)

MR. McLAUGHLIN: Section 7 provides for the transfer of the shares of the old company and the issue of the new and there was no intention there should be any interregnum without any dividends.

MR. TILLEY: The Act of Incorporation, Section 9 says. (This Section was read.)

WITNESS: It was the dividends that were due on the 30th of June of both companies.

MR. TILLEY: (Reads the 4th clause of the Agreement set out in the Act.)

Q.—The agreement under which the assets was transferred to this new company provided that the shareholders in the old company should get 20 per cent. paid stock for their interest in the old company, that was the fact was it not? A.—Yes sir.

Q.—And there was nothing said in the agreement or Act of Incorporation that they should get a dividend for the last six months that had gone by? A.—Except indirectly.

Q.—Where indirectly? A.—The agreement said that they should assume the obligation of the old company.

Q.—Do you say there was an obligation on the old company to pay a dividend on the 30th of June? A.—I think there was.

Q.—What creates it, where is the resolution or by-law that creates it?

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A.—We had been paying the dividend right along.

Q.—We may create a reason, but that does not create a dividend. Was any resolution or by-law passed before the amalgamation for the payment of a dividend after amalgamation? A.—It is there.

Q.—Let me see it if it is there?

THE CHAIRMAN: What is the fact as to that? Was there a by-law or resolution?

MR. TILLEY: Was there anything in the minutes of the old company about that at all? A.—Nothing before that.

Q.—So that at the time the companies were amalgamated there was no liability on the old companies for the payment of any dividends on the 30th of June, 1901. There was no resolution or by-law that gave the shareholders any vested rights. That is the fact? A.—It seems to have been so except a moral one.

Q.—Except for the reason that the dividends had been paid for years?

A.—Yes sir.

Q.—For how long was the dividends paid at that rate? A.—I should say about 8 or 9 years.

Q.—Eight or nine years the Temperance and General had been paying at what rate? A.—I am speaking of the old Manufacturers' Life.

Q.—The Manufacturers' Life paid 8 per cent? A.—Yes sir.

Q.—The Temperance and General? A.—The last year before the amalgamation they paid 10 per cent., that is for the year 1900. I am pointing out that this dividend paid by the new company was on the old stock.

Q.—I am coming to that, but the old company had not declared any dividend that had not been paid? A.—It was only by an oversight.

Q.—So that what you say was that the intention was that each company should pay a dividend before the amalgamation should go through? A.—Yes sir.

Q.—For the last six months they should give their shareholders the usual dividend? A.—Yes sir.

Q.—But you say there is nothing about that in the agreement? A.—It was overlooked.

Q.—Is this the first time it was drawn to your attention? A.—Yes sir.

Q.—So that dividend was really paid? A.—Yes sir.

Q.—On what basis was the dividend paid? Rateably to the new shareholders according to their stock, or

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according to the shares in the old company? A.—In the old.

Q.—The minute has divided it in that way? A.—Yes sir.

Q.—So that it is on the paid up old stock in the old company? A.—Yes sir.

Q.—Then that is why this column in 1901 that you furnish us with differs from the column in 1902, because the first stock that this company paid dividend on was not its stock at all but the stock of the two old companies? A.—Yes sir.

Q.—That was the basis on which it was paid? A.—Yes sir.

Q.—And that arises from each company paying its dividend before the amalgamation? A.—Yes sir.

Q.—You see now that the Agreement and the Act would not warrant that being done? A.—I suppose that is a legal question that will have to be decided.

Q.—I suppose what you say Mr. Junkin that it was intended that the companies should go on with their business in the same way except that the two companies should go on as one company instead of two? A.—Yes sir.

Q.—And that everything should go on as though there were two companies? A.—Yes sir.

Q.—And what you say is if it was not done in the agreement it was intended to be done, and that the company should go on in the old way? A.—Yes sir.

Q.—Then Mr. Junkin, after the agreement was carried into effect and the new company was formed there seems to have been some considerable changes in the holding of the stock? Can you say whether during 1901, 1902 or 1903 there was any agreement made between certain persons as to acquiring stock in the Manufacturers' Life Insurance Company? A.—Yes sir. Mr. Cox sold out his interest.

Q.—That would appear to be in the year 1902? I see the transfer from Mr. Cox to you of a large block of 4,000 shares is dated December 1st, 1902. Is that the transfer you mean? A.—That was part of it.

Q.—Was that transfer made pursuant to an agreement that had just then been arrived at, or an agreement of some standing of some time? A.—That particular transfer was due to an agreement that took effect at the time as far as the purchases of that stock are concerned. I think the purchasers of that stock got 4,000 shares, 2,000 went to Mr. D. D. Mann and

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2,000 went to Mr. William MacKenzie.

Q.—2,000 of the 4,000 went to D. D. Mann? A.—Yes sir.

Q.—And 2,000 went to Mr. MacKenzie. A.—Yes sir.

Q.—You say that transaction so far as they were concerned took place then? A.—About that time.

Q.—Had there been any previous arrangement as to stock in the Manufacturers' Life? A.—Yes sir; some Montreal man had an option from Mr. Cox.

Q.—Who was that? A.—C. J. McCuaig and William Strachan.

Q.—How long before that had their option existed? A.—Some time I think in the early part of 1901.

Q.—Before the amalgamation? A.—Yes sir.

Q.—Was it an option, or an agreement to sell? A.—An agreement to sell I understand.

Q.—To Mr. McCuaig and Mr. Strachan? A.—Yes sir.

Q.—Were you not a party to that? A.—I was a party to the extent of helping to arrange it.

Q.—On whose behalf were you acting? A.—On behalf of Mr. McCuaig and Mr. Strachan.

Q.—Were you a party to it? A.—Only to the extent of helping to negotiate.

Q.—Were you interested in it personally? A.—No.

Q.—Only to the extent of helping to negotiate it? A.—Yes sir.

Q.—Did that agreement fall through? A.—No.

Q.—It was that agreement that was ultimately carried out and part of the stock then found its way into MacKenzie and Mann's hands, that is what you mean? A.—Yes sir.

Q.—Was that agreement between Mr. McCuaig and Mr. Strachan an agreement made directly with Mr. Cox? A.—Yes sir.

Q.—Is that on record in the company's books? A.—No.

Q.—Have you it? A.—No.

Q.—You never knew its terms? A.—No.

Q.—You never had the agreement or a copy of it? A.—No.

Q.—Do you know its terms? A.—No, not exact terms; I know about the price of the stock.

Q.—Do you know about the price of the stock as between Mr. Cox and Mr. Gooderham? A.—No.

Q.—You don't know how these two prices compare? A.—No.

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Q.—What was the price of the stock between McCuaig and Strachan? A.—About \$45 a share.

MR. McLAUGHLIN: It is hardly fair to bring this out. It is a right of dealing between these private parties.

MR. TILLEY: Can you give me a copy of that agreement? A.—Which agreement?

Q.—Relating to that transaction. My learned friend thinks they are of a private nature. We want to be satisfied of that? A.—My opinion is there was nothing in the agreement more than I stated.

Q.—What? A.—Simply a purchase for \$45 a share.

Q.—Let me put it in this way. Did you set out to interest Mr. McCuaig and Mr. Strachan in the purchase of this stock? A.—I did.

Q.—So that was a transaction that was brought about by you? A.—Yes, sir. Personally Mr. McCuaig was interested himself.

Q.—Was he a shareholder in the Company at that time? A.—I think he was, I am not sure.

Q.—That is prior to the amalgamation, in which company do you think he was? A.—I think in the Manufacturers' Life.

MR. GEARY: Shareholder in 1901? A.—He was a shareholder from the formation of the Company.

MR. TILLEY: (Reading from Shareholders' account.) In 1887 50 shares, 1900 30 shares of the new. He got 30 shares of the new ones, making 80 shares that he held at the time of the amalgamation? A.—Yes, sir.

Q.—Then it was as a result of the discussion between yourself and Mr. McCuaig? A.—Yes, sir.

MR. McLAUGHLIN: Mr. Strachan.

MR. TILLEY: Q.—It ultimately resolved into an agreement by Mr. McCuaig and Strachan to purchase the whole of Mr. Cox' stock. A.—Yes, sir.

Q.—Was it an agreement to purchase the whole? A.—Practically the whole of it.

Q.—And that agreement was in existence at the time the amalgamation was decided upon? A.—Yes, sir.

Q.—Was Mr. Strachan a shareholder? A.—Before?

Q.—Yes? A.—Yes, I think so.

Q.—Let us have Mr. Strachan's now. 14th July, 1887, 50 shares, then he got 30 of the new ones, making 80

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in all in the Manufacturers'? A.—Yes, sir.

Q.—Had he any in the Temperance and General? A.—20 shares.

Q.—20 shares, January, 1901? A.—That is all that he had at the amalgamation.

Q.—So that he had 80 shares in one and 20 in the other?

MR. McLAUGHLIN: 20 shares would be equivalent to 100 of the new stock.

MR. TILLEY: What about Mr. McCuaig in the new company? March 16th, 1900, 130 shares, April 3rd, 1900, 83 shares, total 113 shares? A.—Yes, sir.

Q.—Temperance and General? A.—Nothing.

Q.—So both of these men, one of them was interested in both of the old companies and one was interested in one of them. Have they taken their holdings in this company through you? A.—No, Mr. Strachan was a shareholder from the beginning in the Manufacturers' Life.

Q.—Then you say as the result of some negotiations between you and them, you started the negotiations, they became entitled under the agreement to Mr. Cox' holding in the Company? A.—Yes, sir.

Q.—Then how did it turn into this MacKenzie and Mann transaction? A.—I thought it would be in the Company's interest to get the stock divided.

Q.—Do I understand you think it was against the interests of the company to have the control of the stock in one person? I am asking you if that was what you thought at the time? A.—Yes sir.

Q.—Do you put that forward as your reason for taking any action about it? A.—Yes sir as a matter of fact that was my reason.

Q.—Were you interested in any way in any stock under the option or under the agreement that Mr. McCuaig and Mr. Strachan had, or at any time before they made the arrangement with Mr. MacKenzie and Mr. Mann? A.—No, only I was shareholder in the company myself.

Q.—Were you interested, or did you become interested in the shares that Mr. MacKenzie and Mr. Mann got? A.—Yes sir.

Q.—You became interested in that? A.—Yes sir.

Q.—To what extent? A.—Became responsible for the whole stock.

Q.—As between you and whom? A.—Mr. McCuaig and Mr. Strachan.

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Q.—When did you become responsible for that? A.—It would be about the time of amalgamation?

Q.—Was it before or after? A.—It was while the bill was before the House.

Q.—What brought it up for discussion at that time? A.—My interest to get it distributed.

Q.—Well you mean to say that you found that there was no breaking the control, you say now there was no breaking the control because Mr. McCuaig and Mr. Strachan took it away from Mr. Cox? A.—Exactly.

Q.—And you wanted still further to break it up? A.—Yes sir.

Q.—And you wanted to divide it up more? A.—Yes sir.

Q.—Was that your only reason? A.—That was my only reason.

Q.—Was it something that just happened to be dealt with at the time the Bill was before the House, or did the fact that the Bill was before the House have something to do with it? A.—No, I don't think the Bill had anything to do with it, but what had to do with it was that I feared the sale of the stock again and I was afraid it might get into unfriendly hands.

Q.—That is that Mr. McCuaig and Mr. Strachan might dispose of the entire block of the stock they had? A.—Yes sir.

Q.—To some one person? A.—Yes sir.

Q.—To some particular person? A.—No, I don't know of any particular person they were negotiating with, but I understood they were prepared to sell.

Q.—What you say was at the time the Bill was before the House you learned they were willing or even anxious to sell? A.—Yes sir.

Q.—Did you hear of my negotiations that were taking place with them? A.—No, not definitely, that is with regard to any particular person that they were negotiating with, I heard they were endeavoring to sell the stock.

Q.—Did they speak to you about it or did you speak to them? A.—I think I spoke to them.

Q.—Was any written agreement come to at that time? A.—Yes sir.

Q.—Have you that here? A.—No.

Q.—That can be produced I suppose? A.—I don't really know whether it is in existence or not. If it is I shall produce it.

Q.—What share of the stock did you become responsible for? A.—The whole of it.

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Q.—The whole of their stock? A.—Yes sir.

Q.—You didn't leave them with part of it? A.—No. I am wrong there. They kept something over 2,000 shares.

Q.—Am I right in saying when I say the whole of it, that it was the whole that MacKenzie and Mann took?

A.—Yes sir. As a matter of fact I was not responsible for it only a very short time.

Q.—What time? A.—Not very long.

Q.—How long? A.—Perhaps a week or so.

Q.—Did you enter then into an agreement with Messrs. MacKenzie and Mann about it? A.—Not at that time, but I did get some others interested.

Q.—You became interested with other parties shortly after you assumed the obligation in 1901? A.—Yes sir. Before the amalgamation was completed.

Q.—Did that result in any transfer of the stock? A.—Immediately.

Q.—Yes? A.—I think it did.

Q.—Will you point out what you refer to? There is one, 950 shares to H. M. Pellatt, 950 shares was transferred by the Central Canada Loan and Savings Company, July 10th, 1901, to H. M. Pellatt? A.—Yes sir.

Q.—The second transfer you refer to is one on August 7th, 1901, from the Central Canada Loan and Savings Company to H. M. Pellatt of 50 shares, making 1,000 shares in all? A.—Yes sir.

Q.—On November 11th, 1901, the transfer by the Central Canada Loan and Savings Company to C. J. McCuaig of 273 shares. The next following item in the transfer book would be one of November 13th, 1901, C. J. McCuaig to E. J. Rykhert of the same 273 shares. Then the next one referred to is one on September 5th, 1901, from the Central Canada Loan Company to S. G. Beatty, Toronto, 900 shares? A.—Yes sir.

Q.—Then also the further entry in December, 1901, a transfer from the Central Canada to C. J. McCuaig of the 800 shares? A.—Yes, sir.

Q.—The next item of December 30th, a transfer from the Central Canada to J. F. Junkin, 50 shares? A.—Yes, sir.

Q.—Then on January 2nd, 1902, J. F. Junkin to L. P. Sirois, 50 shares. Then on January 7th, J. J. Kenny to the Central Canada Loan and Savings Company, 50 shares. That is part of the same lot? A.—Yes, sir.

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Q.—January 2nd, 1902, C. J. McCuaig to McCuaig Brothers & Company, Montreal, 800. Then on February 13th, 1902, J. F. Junkin to G. I. Mallory, 100 shares. April 22nd, 1902, C. J. McCuaig to McCuaig Brothers & Company, 50 shares. Then December 1st, 1902, Geo. A. Cox to Wm. Strachan, 973 shares. Then on December 1st, 1902, the transfer from Gooderham was made to Mr. Cox of the 5,755 shares, and at the same time T. G. Jackson transferred to Mr. Cox 50 shares, and Mr. Gooderham transferred the same amount, 50 shares. Then on December 1st, 1902, G. A. Cox transferred to J. F. Junkin, Managing Director of the Manufacturers' Life Insurance Company in trust 4,000 shares, and on the day following, December 2nd, 1902, Mr. Cox transferred to R. J. McLaughlin 200 shares. Those are the transfers that you refer to, and some of those transfers are apparently transfers of some shares that you had already referred to? A.—Yes, sir.

Q.—That is where McCuaig would transfer certain shares from himself to his firm, that would be a re-transfer of the same number of shares, that is to say these are not all original transfers that you have been referring to? A.—No.

Q.—Then after that transfer of 4,000 shares on December 1st, 1902, down to the transfer of two separate blocks to Wm. MacKenzie of 2,000 shares on December 16th, 1905, and 1,950 shares on the same date, you carried that 4,000 shares in your own name and trust? A.—No, not in trust.

Q.—I think so? A.—Oh, the 4000 shares, yes sir.

Q.—Were you carrying that all the time as MacKenzie and Mann stock? A.—Yes sir.

Q.—Have they paid for it? A.—Yes, sir.

Q.—Have they paid you for it? A.—Yes, paid cash at the time.

Q.—Paid cash for it at which time, when it was transferred into your name, or transferred to them from you? A.—Transferred into my name.

Q.—At the time it was transferred into your name MacKenzie and Mann paid for that? A.—Yes sir.

Q.—Did they obtain any accommodation from the Manufacturers' Life

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Insurance Company? A.—At that time they obtained accommodation.

Q.—To what extent? A.—Something like \$100,000.

Q.—On this 4000 shares? A.—On Inverness Railway bonds.

Q.—And these shares? A.—Yes sir.

Q.—Have you the account here that shows that transaction? A.—No.

Q.—We will have to have that account produced. What you say I understand is, that the real transaction was, according to your statement that Mackenzie and Mann at that time pledged with the Manufacturers' Life some Inverness Railway bonds? A.—Yes sir.

Q.—Amounting to how much? A.—Something like \$100,000.

Q.—\$100,000 of bonds, you had better have the account. You cannot give it to us? A.—Approximately.

Q.—Approximately what? A.—\$100,000.

Q.—Do you mean market value or par value? A.—Par value.

Q.—And the market value what? A.—Selling at 90.

Q.—So that the market value would be \$90,000? A.—Yes sir.

Q.—I am told by Mr. McLaughlin that that was the same transaction that was referred to in connection with the investigation into the Department at Ottawa? A.—Yes sir.

Q.—So that it just comes up that way by tracing it in a different way? A.—Yes sir.

Q.—The origin then of that loan made to MacKenzie and Mann was at the time of the transfer to you of the 4,000 shares by Mr. Cox, and the loan was made for the purpose of carrying out that purchase? A.—I am not sure of that.

Q.—The date of the transfer on the book was December 1st, 1902, and the report from the Department commenced prior to the 28th December, 1903. Two call loans had been made on the Company by MacKenzie and Mann and the two debts stand at certain sums of money.

MR. McLAUGHLIN: We will produce the whole account in full.

(Proceedings adjourned to 10.30 a.m. to-morrow, Thursday, April 26th.)

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FIFTEENTH DAY.

Toronto, April 26th, 1906.

(Examination of Mr. Junkin continued.)

MR. TILLEY: Mr. Junkin, you were to produce some papers this morning? A.—Yes, sir. The agreement between myself and Messrs. McCuaig and Strachan. I find there are two agreements, one dated April 23rd and a supplementary agreement made first and a letter of mine intervening dated April the 27th, all in 1901.

Q.—That would be after the amalgamation had been decided on? A.—Yes, sir.

Q.—Have you made any search to see whether you have in the office or with your own papers any memorandum of the agreement between Mr. Cox and Mr. Gooderham? A.—I am quite certain we have not. I would know if we had. We never had at any time.

Q.—We will have to make inquiry for that elsewhere, then. The first letter is dated May 1st, 1901, and is written by you to Messrs. William Strachan and Clarence J. McCuaig, Montreal. "Dear Sirs,—I hereby make you the following offer for 457 shares of the Temperance and General Life Insurance Company and 4,715 shares of the Manufacturers' Life Insurance Company, being the equivalent of 7,000 shares in the amalgamated company. I will pay to your acquittance to the Central Canada Loan and Savings Company, \$322,000, with interest from January 1st, 1901, at 5 per cent., as follows: \$30,000 on Friday next the 3rd instant and the balance on or before the 1st day of June next. It is further agreed that in the event of my failure to make any of these payments or either of them on the dates mentioned that this agreement shall be null and void and any payment made thereunder shall be forfeited as liquidated damages. Yours truly, C. F. Junkin. Accepted, Clarence J. McCuaig, William Strachan. As authorized by Clarence J. McCuaig." Did this letter cover the whole of the shares that they had any agreement with Mr. Cox? A.—Excuse me, what is the date of that letter?

Q.—May 1st, 1901? A.—The first letter is in the bottom.

Q.—Oh, they are in the other order, are they? A.—Yes.

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Q.—Then probably I had better read this one before we discuss them. The first letter is one signed by Clarence J. McCuaig and William Strachan and is addressed to you, dated April 23rd, 1901. "We hereby offer to sell our interest in the Manufacturers' Life Insurance Company and Temperance and General Life Insurance Company, as purchased from Geo. A. Cox, at cost to us, namely, \$392,349.82, on the first day of January, 1901, with interest at the rate of 5 per cent. per annum since that date to date of purchase, plus \$24,000 paid on call to the Temperance and General Life Insurance on April 1st, with interest at 5 per cent. to date of purchase. We to be relieved of all responsibility upon our agreement to George A. Cox. Any dividends accruing to go to purchaser. This offer to be open for acceptance until Friday next, the 26th instant, at 2 p.m. If desired we will each retain one-tenth interest in same. Yours truly, Clarence J. McCuaig, W. Strachan." "Received \$1,000 consideration, to be applied on purchase if carried out, or forfeited as liquidated damages if sale is not completed. Clarence J. McCuaig, W. Strachan."

Q.—Then at the date of this letter you say the bill to incorporate the Manufacturers' Life Insurance Company—the new company—was then before the Dominion House, was it? A.—I would not be sure about that April—let us see—I could not answer. Would not the date—

Q.—The resolution as I remember it was dated the 23rd day of March, finthe legislation? A.—Yes, sir; well, ally approving of the application for then, it was evidently decided on in any case.

Q.—It was decided on about the 23rd of March and the final agreement for the Act was dated the 2nd of July? The Act itself was apparently assented to on the 23rd day of May, 1901. So that this letter comes midway between the authorization by the Directors and Shareholders to apply for the Act and to the Act being assented to by the Dominion House? A.—Yes, sir.

Q.—At the date you received this letter you must have known of the exact terms of the agreement between Mr. Cox and Mr. Gooderham? A.—Only from these gentlemen, Mr. McCuaig and Mr. Strachan, they gave me to understand that I was just getting it at what they had paid for it.

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Q.—That was the agreement between Mr. Cox and Mr. McCuaig that you are referring to now? A.—Yes, sir.

Q.—But you would know then, also, would you not, the exact transaction between Mr. Cox and Mr. Gooderham? A.—No certain knowledge, only that I was always given to understand that the price they paid was the same price that Mr. Cox paid, that no one had made anything out of the stock.

Q.—You always understood that the stock was being transferred from one party to another at the price that the seller had agreed to pay himself? A.—Yes.

Q.—Plus interest, I suppose. A.—At 5 per cent. And less dividends.

Q.—And any additional sums paid on the stock. I notice that here is a reference to \$24,000 paid on call to the Temperance and General Life. That was when the balance of their stock was called, I suppose? A.—Yes, it was called up at par.

Q.—But you think the agreement between Mr. Cox and Mr. Gooderham was not shown to you at the time? A.—I am quite certain it was not.

Q.—The agreement between Mr. Cox and Messrs. McCuaig and Strachan must have been shown to you? A.—Yes.

Q.—Did you keep a copy of it? A.—No.

Q.—Have you a copy of it now? A.—No, I have not.

Q.—Can you fix the exact date of it yet; this document does not give the date? A.—No, I have not had an opportunity of looking that up in the limited time. The date of the transfer from?

Q.—From Mr. Cox to McCuaig and Strachan? A.—No, I could not answer that.

Q.—That transaction between Mr. Cox and Mr. McCuaig and Mr. Strachan was an arrangement that was consummated on your effort, your initiation was it not? A.—Yes, largely on my initiation.

Q.—And the date cannot be fixed, you think, now from any papers that you have when Messrs. McCuaig and Strachan became interested? A.—I have a statement here which would seem to indicate that it was the 1st of January.

Q.—Well, this letter would rather indicate that, too, but it does not say so definitely. "We hereby offer to sell our interests—at \$342,000 on the 1st day of January, 1901, with interest from that date." That might be the

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last date at which any balance was arrived at, or it might be the exact date on which the purchase was agreed to be made? A.—Yes. I think I could ascertain that by referring to correspondence.

Q.—Then on the 1st of January, 1901, when McCuaig and Strachan entered into that arrangement with Mr. Cox, I suppose the amalgamation of the companies had then been discussed? A.—Yes, I think so; it had been discussed to some extent.

Q.—Was that one of the benefits that was likely to accrue to the purchasers of that stock? A.—Yes, I think it was understood that the companies would be brought together and there would be naturally a saving in expenses.

Q.—Who was that understood between? A.—Well, of course it would largely be in the power of the purchasers.

Q.—It would be entirely in their power, would it not? A.—Practically.

Q.—That was the scheme or the plan that you outlined to these purchasers at that time? A.—Yes, that is my recollection.

Q.—That they could by purchasing Mr. Cox's shares or his rights under the agreement with Gooderham, become in control of both companies and then amalgamate the two companies? A.—As a matter of fact, when I approached these gentlemen first it was with the idea of purchasing the Manufacturers' Life stock only and they had agreed to do so. The arrangement was made on that basis.

Q.—When you say you approached them, would the negotiations that took place between you and McCuaig and Strachan be in correspondence or verbally? A.—Verbally.

Q.—Was it entirely verbally? A.—Yes, entirely.

Q.—Have you looked up to see whether there was any correspondence other than what you have produced here?

A.—No, I have not, but my recollection was that Mr. McCuaig was in Toronto here when the matter was opened first, and it was discussed in my office.

Q.—Did you know that the stock in the old Manufacturers' Life could be purchased separately from the Temperance and General stock? A.—I approached Mr. Cox with the idea of the purchase and he did not seem quite decided in the matter; Mr. E. R. Wood was in England at the time and

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his reply was that he would give me a definite answer when Mr. Wood returned, but from the conversation we had I had reason to believe that he would sell the Manufacturers' Life stock at what it cost him. When Mr. Wood returned, Mr. Cox's reply to me was that Mr. Wood's advice was not to sell the Manufacturers' alone unless he would sell both, that he would recommend him to sell both the Manufacturers' and Temperance and General stock, but not the Manufacturers' alone.

Q.—Then the sale of that stock by Mr. Cox was in negotiation with you before you took it up at all with McCuaig and Strachan, I suppose? A.—No.

Q.—Was that the result of your talking to McCuaig and Strachan? A.—Yes, I wanted to find a market for the stock before purchasing it.

Q.—You were trying to place the stock elsewhere. A.—Yes. Not that I had any personal objection to Senator Cox, as Senator Cox, holding it, but I did not think it in the interest of our Company that the stock should be held by the President of another company, a gentleman who was largely interested in two other companies in fact.

Q.—You mean the Canada Life and the Imperial Life? A.—Yes.

Q.—You thought it was an objection from the standpoint of your company? A.—Yes.

Q.—That it should be in the control of the same person who was controlling at least two other Insurance Companies? A.—Yes.

Q.—Well, the transfer to McCuaig and Strachan does not seem to have split it up very much? A.—Well, of course their intention was not to hold the stock alone.

Q.—Had you any understanding with them to that effect? A.—Yes.

Q.—What understanding? Is there any understanding that is not referred to in this correspondence? A.—No, this correspondence took place later. The understanding at the beginning was, when we were discussing Manufacturers' Life matters, that Mr. Strachan would place some of it with his friends in Montreal; Mr. McCuaig would place some of it with his friends in the Maritime Provinces and British Columbia, and that I would get some of my friends in Ontario interested in it and get it pretty well divided and distributed.

Q.—That was the original intention? A.—Yes.

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Q.—Was that abandoned? A.—It was only abandoned after they failed in their efforts to place it with their friends in the east and as a matter of fact they came to the conclusion that they had paid too high a price for the stock to be able to distribute it and they were not willing to let any of it go unless they could get rid of practically the whole of it.

Q.—You say that McCuaig and Strachan, after they had made this purchase, came to the conclusion that they had paid too much for the stock and they were not satisfied to part with the control unless they sold the body of the stock they held? A.—Yes, that was the position.

Q.—They came to the conclusion that it was to their interest to retain absolute control of the company unless they realized on a substantial portion of the shares? A.—Yes, and that they were unable to do so when they approached their friends, their friends told them they did not care to take it at that price.

Q.—Then do you say that all these negotiations you are referring to now took place between January 1st and April 23rd when you made this arrangement with them? A.—Oh no, it was long before January 1st that I approached Mr. Cox with regard to the Manufacturers' Life stock.

Q.—But I understand you to say that after McCuaig and Strachan made their purchase from Mr. Cox, that they then made efforts to dispose of the stock? A.—Yes.

Q.—Were unsuccessful? A.—Yes.

Q.—Concluded they had paid too much for it? A.—Yes.

Q.—And they refused to sell in small lots, refused to sell unless they sold a substantial amount? A.—Yes.

Q.—Did all that take place between January 1st, 1901, when they appear to have made their contract with Mr. Cox, and April 23rd, when they entered into a contract with you? A.—Yes, if that date is right, if January 1st is the date of their purchase; it took place between the date of their purchase and their sale to me.

Q.—Have you any correspondence that shows what was transpiring at that time, during that interval, between you and McCuaig and Strachan? A.—I might have some. The most of it was verbal however. I was in Montreal several times, and Mr. McCuaig and Mr. Strachan were in Toronto a number of times.

Q.—That correspondence can be

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looked up and if we think it is material we can put it in? A.—Yes.

Q.—At the time that you entered into the contract with McCuaig and Strachan were you responsible in any way for that stock personally? A.—Before I entered into the contract?

Q.—Yes? A.—Not at all.

Q.—Before you entered into this arrangement of April, 1901? A.—Not in the slightest degree.

Q.—You had assumed no personal responsibility.—A.—None whatever.

Q.—You had not contracted with them to place it elsewhere? A.—No.

Q.—Had the Manufacturers' Life Insurance Company, either the old Manufacturers' or the old Temperance and General, had either of these companies advanced any money in connection with these transactions between Gooderham, Cox, McCuaig and Strachan, and Junkin? A.—The old Manufacturers' had certainly not. I could not speak for the Temperance and General, but I don't think they had.

Q.—You can say positively that the old Manufacturers' Life Insurance Company had not advanced any money to any of these parties? A.—Yes.

Q.—None of the cash that was paid at any time was obtained from the Manufacturers' Life? A.—No.

Q.—Either on the deposit of other securities with the Manufacturers' Life or on the security of the stock itself? A.—No.

Q.—So that the Manufacturers' Life Insurance Company at this date of April 23rd, and you yourself personally were absolutely free of any entanglements with this stock? A.—Absolutely.

Q.—Then this proposition that was made by Messrs, McCuaig and Strachan was made I suppose in Montreal, was it, and accepted there? A.—Yes.

Q.—"\$1,000 consideration to be applied on the purchase or forfeited as liquidated damages." Was that \$1,000 paid by you? A.—Yes.

Q.—Personally? A.—Yes.

Q.—Or from the funds or through any loan from the Manufacturers' Life? A.—No, paid by me personally.

Q.—By cheque? A.—I think it was cheque.

Q.—To McCuaig and Strachan? A.—Yes.

Q.—By your own personal cheque to McCuaig and Strachan. A.—Yes.

Q.—I will just read the next letter that followed that, four days later.

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April 27th, 1901. A letter from you to C. J. McCuaig and William Strachan, Montreal.

It is headed, "Re Manufacturers' Life Stock." "To carry out my option of April 23rd I offer to pay \$30,000 cash; \$30,000 on the 15th day of May, and between \$38,000 and \$39,000 or whatever is required to bring the loan on my four-fifths down to \$240,000 on or before the 15th day of July. The balance of the purchase money, and in fact all payments to bear interest at 5 per cent. interest and the whole to be paid on or before the 1st day of May, 1902. Kindly wire me your acceptance or refusal of this offer before 4 p.m. on Monday the 29th instant. If this offer is not accepted I am to have until Wednesday, the 1st day of May, at 4 p.m. to carry out my original option. It is understood that you are to receive 5 per cent. on your disbursements."

What are their disbursements? A.—That is that the purchase was to carry 5 per cent.

Q.—That any money they had paid out would bear interest at 5 per cent? A.—Yes.

Q.—Now then at the date of that letter, April 27th, had you then consummated any arrangement with any other parties with regard to that stock? A.—No.

Q.—Were you assuming this liability to pay \$30,000 cash and so on, entirely personally, yourself? A.—I was, yes.

Q.—Had you then any negotiation with MacKenzie and Mann on the subject at all? A.—No, not at that time.

Q.—Had you in any way insured yourself that you would be able to dispose of it? A.—No.

Q.—And you say there was no other motive than the breaking up of control—A.—That was the motive.

Q.—You elected under the option they gave you, that they should retain the portion of the stock that they offered to keep? A.—Yes.

Q.—"If desired we will each retain a one-tenth interest in same." A.—Mr. Strachan retained his one-tenth. Mr. McCuaig did not.

Q.—What did Mr. McCuaig do? A.—He asked me to take his portion of it as well as the amount that I had agreed to take.

Q.—He asked you to relieve him of his one-tenth? A.—Yes.

Q.—So that you took the four-fifths and one-tenth? A.—Yes.

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Q.—Strachan retaining the other one-tenth? A.—It did not come out exactly that way. Strachan retained 1,073 shares. That was the final settlement.

Q.—That was the final arrangement that was made? A.—Yes.

Q.—Then that letter of yours was followed by the letter that I first read of May 1st, 1901, in which you make a further offer. (Reads this letter. See page 879.) Then that letter I suppose was written after you had had some conversation with them, following the letter of April 27th, 1901? A.—Yes.

Q.—And the amount payable under this letter was stated as \$322,000 with interest from January 1st, 1901. Now was that computed on the same basis as the original proposition? A.—Yes, the same basis exactly, a proportionate amount.

Q.—And were these shares the four-fifths? A.—No.

Q.—That was the arrangement that you spoke of? A.—It was just made in the even sum, 7,000 shares, the idea being that Mr. Strachan would keep 1,073 shares and Mr. McCuaig 1,073 shares, making 9,146 shares. Then Mr. McCuaig afterwards declined to keep his.

Q.—So there was no change made after this letter of May 1st, 1901? A.—Only to the extent of Mr. McCuaig's interest.

Q.—I am saying after the letter of May 1st, 1901; that change was made before the letter of May 1st, 1901, was it not? A.—No, I think in that I only agree to take 7,000 shares.

Q.—“The following offer of 400 being the equivalent of 7,000 shares.” Quite so. So after that the change was made. Then did you carry out your undertaking to make the payments under this contract? A.—I did.

Q.—\$30,000 was payable on the following Friday after May 1st, 1901? A.—Yes, or about that date.

Q.—The 3rd of May. Did you obtain any transfer of stock at the time that you made that payment? A.—No.

Q.—You did not obtain any transfer of stock; you paid the \$30,000 cash? A.—On account, yes.

Q.—Without getting any transfer of stock at the time? A.—Yes.

Q.—Was that money raised from the Manufacturers' Life Insurance Company? A.—No, they had nothing to do with it.

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Q.—They had nothing to do with the \$30,000; have you your account with the old Manufacturers' Life Insurance Company here? A.—I couldn't say.

Q.—The ledger containing Mr. Junkin's account is not here; we can look at that afterwards, but does that account contain any reference? A.—To this transaction?

Q.—Yes? A.—None whatever.

Q.—Would you say, Mr. Junkin, in a general way, how you financed that transaction? A.—I put some of my own money in and borrowed some from a friend.

MR. McLAUGHLIN: I submit that matter cannot be gone into any further than it affects the Insurance Company or the Insurance Enquiry.

WITNESS: I might say the friend had no connection whatever with the Manufacturers' Life.

MR. TILLEY: I have not asked you even that much yet, have I? You say that you financed the transaction by putting up some of your own money and raising the balance from a friend? A.—Yes.

Q.—Was the friend a shareholder in the Manufacturers' Life? A.—No.

Q.—Not a shareholder in the Manufacturers' Life? A.—No.

Q.—Or in the Temperance and General? A.—No.

Q.—Was he an officer of either of the companies? A.—No.

Q.—And you say that no loan came through the company in any way in connection with the transaction at that stage at any rate? A.—None whatever.

Q.—Then how long was it after May, 1901, before you took the matter up with Mackenzie & Mann? A.—Oh, it would be months thereafter.

Q.—Some time after the amalgamation had gone through? A.—Yes, a considerable time.

Q.—Had you in the meantime attempted to in any way dispose of this stock in small amounts? A.—Yes. I began to work on it immediately, and this was the final distribution of the stock.

(Produces a document.)

Q.—The stock was finally distributed in this way:

Lloyd Harris	1,350 shares.
H. M. Pellatt	1,000 shares.
William Strachan	1,073 shares.
S. T. Beatty	1,000 shares.
William Mackenzie	2,000 shares.
D. D. Mann	2,000 shares.

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McLaughlin & Johnston...400 shares.
J. F. Junkin323 shares.
Making in all9,146 shares.

That was the 7,000 shares that you had agreed to buy under the letter of May 1st and the additional shares of McCuaig's? A.—And Strachan's.

Q.—That you took over? A.—Yes, that was the whole holdings of McCuaig and Strachan as they purchased them from Senator Cox.

Q.—William Strachan is down here for his 1,073 shares, so that this is not an additional thousand he took, but is his original portion that he retained? A.—Yes.

Q.—Can you tell me when this was finally consummated in this way, how soon after? A.—All except Mackenzie & Mann's were consummated just about the time of the amalgamation.

Q.—Do you mean then in the month of July? A.—I think so; most of it.

Q.—Was Lloyd Harris before that a shareholder? A.—Yes.

Q.—A small shareholder? A.—Well, I think he had probably about 150 or 200 shares, something like that.

Q.—Then you say that you placed the stock with Harris, Pellatt, Beaty, McLaughlin & Johnston, before MacKenzie & Mann were in the transaction at all? A.—Yes.

Q.—So that there was no stipulation as to MacKenzie and Mann's 4,000 shares by any of these parties? A.—None whatever.

Q.—Did these parties agree to take this stock together, or was each one dealt with separately? A.—Each one was dealt with separately.

Q.—It was not a general arrangement between themselves to take up the stock? A.—Oh, there was probably more or less conversation, naturally they would ask me who else was coming into the company, what was the company going to be.

Q.—Each one making his enquiry to see what the ultimate position of his stock would be with respect to the whole stock of the company? A.—Yes, our idea was to get a good, strong board together that would make a creditable institution.

Q.—At what price did these parties get the stock, Mr. Junkin? A.—The exact price that was paid for it, all the way through, every transaction was carried out on the 5 per cent. basis. Dating from the 1st of January, 1900.

Q.—You say then that each one of these parties that took any share of

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that capital stock got it on exactly the same terms that you got it from McCuaig and Strachan, and as you understood, that McCuaig and Strachan got it from Cox? A.—Exactly.

Q.—And as you understood that Cox got it from Gooderham? A.—Yes.

—Q.—Except that interest was being computed in the meantime at 5 per cent. and credit being given for the dividends? A.—Yes, so that the stock was always getting a little more expensive, as it did not carry itself.

Q.—The stock did not quite carry itself in that way. Do you say, then, that these parties bought the stock at that price although you had not made any arrangement to sell the balance of it? A.—Yes.

Q.—Was there any stipulation by you that if there was any ultimate loss to you on the whole block of stock that they should supplement their payment in any way whatever? A.—None whatever.

Q.—It was an out and out absolute sale? A.—An absolute sale. I took my risk.

Q.—I suppose with all these parties, that there would be some correspondence between you and them, would there not? A.—No. You see they were mostly Toronto men or in the vicinity of Toronto, and it was all done verbally.

Q.—Are you speaking now from recollection or are you saying that as a result of some search you have made to see whether there was any correspondence? A.—No, I have made no search. Just from recollection.

Q.—I suppose a search could be made and then if there is any correspondence we could see whether it is material in any way? A.—Certainly.

Q.—Then in connection with any one of these purchases by Harris, Pellatt, and others from you, was any money loaned or advances by the Manufacturers' Life? A.—None, except what was mentioned yesterday. Later on.

Q.—That is MacKenzie & Mann? A.—Yes.

Q.—We will come to that later, but I mean as to these other parties that went into the transaction before MacKenzie & Mann? A.—None.

Q.—Did they pay cash for the stock? A.—Yes.

Q.—Or did you continue to carry it for them? A.—It was carried in

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the Central Canada. They made their payments as a matter of fact mostly directly to the Central Canada.

Q.—Had you any arrangement with the Central Canada whereby portions of this stock would be released on payment of a certain amount with interest at 5 per cent.? A.—I had no definite arrangement, but as a matter of fact they always did when a proportionate amount was paid.

Q.—You had no understanding with them that that would be done except a tacit arrangement? A.—That was all.

Q.—That was not part of McCuaig and Strachan's original arrangement with Cox, or your arrangement with McCuaig and Strachan? A.—No, there was no arrangement with McCuaig and Strachan except what is contained in this, that I was to make those payments as called for in that agreement.

Q.—You were to assume their agreement? A.—Yes.

Q.—And that agreement of theirs, you have not a copy of? A.—No.

Q.—Nor the original document? A.—No, the Central Canada, I presume, would have the original.

Q.—Then some time afterwards you took up the negotiations with MacKenzie & Mann? A.—Yes.

Q.—Did Mr. Hanna become a shareholder as part of that same transaction? A.—No.

Q.—When did he become a shareholder? A.—That was quite recently. About—I would have to look up the records.

Q.—Will you just look that up? I thought here was 50 shares out of that 4,000 lot that was transferred to him? A.—Perhaps that was soon after the purchase. I will just see.

Q.—It is pointed out that Mr. D. B. Hanna became a shareholder on the 20th of January, 1904, when you transferred to him 50 shares from the stock that was held as "J. F. Junkin in trust." That was this particular stock was it not? A.—Yes.

Q.—He got 50 shares of that stock? A.—Yes.

Q.—Then he does not appear to be in this list; how would that be? A.—Well, that list was the first distribution of the stock. Of course, I have not attempted to follow out any transactions in that stock that may have taken place in recent years. That was how I disposed of it.

Q.—But after you once transferred all the stock that you held as "J. F.

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Junkin in trust," that 50 shares must have come out of the 4,000 shares that was transferred to you for MacKenzie & Mann? A.—Yes.

Q.—Because that 4,000 shares was put in your name in trust? A.—Yes.

Q.—At page 169 of the Stock Ledger an account appears in the name of J. F. Junkin, Managing Director, in trust. Now, that is the account that you carried this MacKenzie & Mann stock in? A.—Yes.

Q.—And it commences with an item on October 8th, 1902, "William Nat-tress, 100 shares." Then on December 4th, 1902, 4,000 shares from Geo. A. Cox. Those are the 4,000 that went to MacKenzie & Mann, and were held for MacKenzie & Mann? A.—Yes.

Q.—Then the 4,000 shares were transferred out of the account by you in this way, on January 20th, 1904, a transfer to D. B. Hanna of 50 shares; and on December 16th, 1905, a transfer to William MacKenzie of 2,000 shares, and on the same date a transfer to D. D. Mann of 1,950 shares, making in all the 4,000 shares? A.—Yes.

Q.—Then that would show conclusively that Mr. Hanna's 50 shares came out of this 4,000 of MacKenzie & Mann's? A.—Ultimately, yes.

Q.—It was transferred from their shares. That 50 shares would probably be transferred to Mr. Hanna at that time to qualify him to go on the Board? A.—So I understood it.

Q.—Representing MacKenzie & Mann? A.—Yes.

Q.—He is associated with them? A.—Yes.

Q.—Mr. Mann was a director in 1901; appointed as one of the original directors of the company? A.—Yes, he had been a Director of the old Manufacturers' Life.

Q.—He was a Director and shareholder in the old Manufacturers' Life? A.—Yes.

Q.—And when the amalgamation took place he became a Director of the new company? A.—Yes.

Q.—Then MacKenzie became a Director in 1902? A.—Yes.

Q.—And then Hanna became a Director in 1904? A.—Yes.

Q.—Mr. McLaughlin thinks that may be a mistake as to the date about Mr. MacKenzie. It can be corrected if it is. No, it was right as I stated it, this memo not being very clear, but it turns out to be correct, Mr. Mac-

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Kenzie became a Director in 1902. Was Mr. MacKenzie a shareholder in the old company? A.—I couldn't say. He was a policyholder for a substantial amount.

Q.—Was he put on the Board of Directors as a policyholder or as a shareholder? Apparently Mr. MacKenzie did not become a shareholder in the company until December, 1905, when you transferred to him 2,000 shares. Is that right? That is what his account at page 184 of the Stock Book shows? A.—That is correct.

Q.—So that there is no doubt that that would be correct? A.—Yes.

Q.—So that Mr. MacKenzie must have been a Director of the Manufacturers' Life qualifying as a policyholder? A.—Yes.

Q.—Was that under any arrangement with MacKenzie & Mann in any way? A.—No, we thought he was a good name to have on our Board.

Q.—In 1902 you had Mr. Mann on the Board and how much did he hold then? A.—Mr. Mann held 161.

Q.—Mr. Mann held 161 shares in 1901 and he was on the Board and then in 1902 Mr. MacKenzie was put on, qualifying as a policyholder. At that time I suppose he had contracted for the purchase of this stock? A.—No, as a matter of fact I don't think he had.

Q.—Have you got the date of that transaction with MacKenzie & Mann? Was the arrangement completed at the time of the transfer to you or had it been completed before that time? A.—There was a verbal understanding before that time that they were going to take some stock, but never got any written agreement therefor.

Q.—December 1st, 1902, was the date. A.—Well it was sometime during that year that they agreed to take the stock. My recollection would be that it would be about 2 or 3 months before that.

Q.—He would be appointed to be a Director of the Company at the Annual Meeting in January, 1902, or the beginning of that year? A.—Yes.

Q.—January or February, 1902, and at that time there was no arrangement with him either verbal or in writing? A.—With regard to the stock.

Q.—Yes, with regard to the stock? A.—None whatever.

Q.—But it was thought that Mr. MacKenzie, the remaining member of the firm of MacKenzie & Mann, would be a good man to have on the Board? A.—Yes.

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Q.—During that year then he was interested in the stock? A.—Yes.

Q.—And have you the correspondence that shows the negotiation between you and them for the purchase of it? A.—No, there was no correspondence at all.

Q.—Are you speaking now from memory or from having looked it up? A.—Well, no, I have not looked it up but I am quite sure, because I am satisfied that in matters of that kind, with men in the city, I would not waste time corresponding about it, I would go and see them.

Q.—What document is in existence whereby they first obligated themselves to take that stock? A.—None whatever, until that time in December.

Q.—Until December 1st, 1902? A.—Yes.

Q.—Now, before December 1st, 1902, do you say that you had no understanding with them as the amount that they were to take? A.—Yes, before that date, I don't know just how long.

Q.—How long before? A.—Oh perhaps a month or two.

Q.—Not more? A.—No, I think not. For a definite amount.

Q.—Not at the time he went on the Board? A.—No.

Q.—You are sure there was no understanding come to at that time? A.—Quite sure.

Q.—Then you say that probably a month or two before December 1st, 1902, you had a discussion in which they said they would take 4,000 shares wasn't it? A.—Yes.

Q.—And it was just left a verbal talk? A.—I want to correct that. They had never told me personally definitely how much they would take. They had told Colonel Pellatt sometime before that the amount they were going to take.

Q.—Then do I understand that it was Colonel Pellatt that interested MacKenzie & Mann? A.—No, he assisted me in interesting them.

Q.—Who conducted the negotiation with them? A.—I began it. I had been speaking to them for perhaps a month or two, and in fact I had been speaking to Mr. Mann from almost the time of the amalgamation, as he was one of the old shareholders, inducing him in a quiet way without pressing it too much on him, the advisability of increasing his holdings in the company.

Q.—The advisability from what standpoint? A.—As an investment.

Q.—As an investment for his money?

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A.—Yes, the word I used was, “a family investment.” Something he could put away and leave to ripen for future years, when it would become valuable.

Q.—Life Insurance is looked upon sometimes as a family investment, and that was what you were urging upon Mr. Mann? A.—Yes. It has not been very profitable up to date in the young companies, but in time it does become profitable.

Q.—You were then urging Mr. Mann as a beneficial investment, for him to put his money into this? A.—Yes.

Q.—Was anything discussed as to the amount at that time? A.—No, I couldn't say just when the amount was introduced into it. The first thing was to get him interested.

Q.—And the next to give a sufficiently large amount? A.—To make him take a personal interest in the company and its affairs.

Q.—Was any smaller amount than 4000 shares ever discussed between you and them? A.—No I think not.

Q.—Was any larger amount? A.—Well, no, there was no larger amount.

Q.—Was there any discussion between you and them at all as to their strength in the company, holding that amount of stock? A.—Well only in this way, that I represented to them that their names were well known throughout the Dominion from the Atlantic to the Pacific and even across the Pacific and that their names would be a good help to the company and I was anxious to see them become substantial policy holders.

Q.—Substantial shareholders? A.—Shareholders I mean. And Directors.

Q.—You had them both Directors then? A.—Yes, but I wanted them to take a more active interest though. They were not attending very many meetings. They considered their holdings were so small I suppose that it was not worth while.

Q.—Did they attend any more afterwards? A.—Yes, Mr. Mann has.

Q.—Did Mr. MacKenzie? A.—No, he has not. He is a pretty busy man.

Q.—He was just as busy before he made the purchase as afterwards, I suppose? You did not expect him to take any more interest in the Manufacturers' Life did you, from a Director's standpoint. A.—Oh, I certainly did, a man who holds two thousand shares.

Q.—That is Mr. MacKenzie? A.—Yes.

Q.—You thought Mr. MacKenzie and Mr. Mann, to some extent the both of them, would devote their in-

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terest and attention to the Directors' work of the Manufacturers' Life? A.—I certainly thought so.

Q.—And Mr. Hanna too? A.—Yes. Well, Mr. Hanna of course came on much later. It was after I ascertained that Mr. MacKenzie was not attending the Board meetings that I suggested—

Q.—Suggested a change from MacKenzie to Hanna? A.—That someone should represent their interests who could attend oftener.

Q.—What do you mean by represent their interest? A.—Well, every shareholder has an interest in the company, and the larger his holding the more interest he ought to have in my opinion.

Q.—So that Mr. Hanna was put on to represent their interests? A.—That was my suggestion.

Q.—Although Mr. MacKenzie was there himself, and taking an interest in it? A.—Mr. Mann, yes.

Q.—And when Mr. Hanna came on, Mr. MacKenzie did not go off the Board? A.—No.

Q.—They all three remained. Mr. Hanna had no interest at all except as representative of MacKenzie & Mann, had he? A.—Well, I couldn't answer that, because these fifty shares, I don't know whether he paid for them.

Q.—You have always understood them to be just MacKenzie and Mann's shares? A.—No, I have not any understanding about it at all.

Q.—Has Mr. Hanna any interest in any other shares except the fifty that you know of? A.—None that I know of.

Q.—Does he attend the meetings of the Directors? A.—Yes, very regularly.

Q.—That will be shown by the names of the persons in attendance at each meeting at the beginning of the minutes? A.—Yes.

Q.—That is always indicated in your minutes I think? A.—Yes.

Q.—And the copies of the minutes you have given us, so far as you know, they are correct in that particular, setting out who is present at each meeting? A.—Yes.

Q.—Then we will be able to check that later? A.—Yes.

Q.—You say you don't know of any other stock that Mr. Hanna has any interest in? A.—No, I don't.

Q.—There is an item of 1350 shares of stock standing in the name of trustees, Messrs. Digby and Helliker, President and Secretary, in trust. Whose stock is that? A.—I couldn't say off-hand. The records will show.

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Q.—I see that those 1350 were transferred from the Central Canada to these persons in trust, so I suppose that that would be the 1350 that in this list is applicable to Lloyd Harris? A.—Evidently. The amount agrees.

Q.—Is that what your understanding of the transaction would be? A.—Yes, now that you mention the Central Canada in connection with it.

Q.—So that apparently would be his stock. Then was any arrangement entered into at all by any of these parties who took that stock, as to control of the company? A.—No.

Q.—You cannot say that positively? A.—Positively.

Q.—Is there any control of the stockholders vote now in connection with the Manufacturers Life Insurance Company? A.—None whatever.

Q.—There is no one person, or no set of persons? A.—No.

Q.—That are in any way grouped together by interest? A.—None whatever.

Q.—That creates a control? A.—No, never even been discussed.

Q.—There are still however some large blocks of stock? A.—Yes.

Q.—And to that extent the control is in the hands of a few or could be put in the hands of a few? A.—Well, it is better than it was.

Q.—It is better than it was, you say, and that would appear to be so. It seems to be better than it was, but there is no understanding between any two or three of them and no common interest between them that you know of? A.—Not the slightest.

Q.—That creates a control of the Manufacturers' Life? A.—None whatever.

Q.—Then why was the MacKenzie & Mann 400 shares transferred to your name in trust? A.—In connection with the transaction we were speaking of yesterday.

Q.—You were going to look up that so that you could give the exact particulars of it. You produce the transfer ledger is it? A.—Yes, the security ledger.

Q.—That is your transfer ledger for securities, not for your capital stock? A.—No.

Q.—It is a looseleaf ledger and there is no way, of course it cannot be paged, but on a sheet headed "MacKenzie, Mann & Co., Limited, Toronto" there is a statement that the loan is repayable on call and the interest is 6 per cent. Was the loan to MacKenzie, Mann & Co., Limited or to

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MacKenzie & Mann? A.—MacKenzie & Mann originally.

Q.—That is the way it was entered originally and then the "and" has been struck out and "& Co. Limited." added after the name? A.—Yes.

Q.—When was that done? A.—That was in 1903 when the securities were changed, or 1904.

Q.—1904, when a certain change was made in the securities? A.—Yes, and a new loan was made to MacKenzie, Mann & Co. Limited.

Q.—Have you anything showing an application in writing by MacKenzie & Mann for a loan to MacKenzie, Mann & Co. Limited? A.—No.

Q.—Where is their liability shown over their signature in any way in connection with this transaction? A.—It would be on the hypothecation form.

Q.—Have you that? A.—Yes we would have that.

Q.—Is it here? A.—No.

Q.—We would like to get that this afternoon. A.—We can produce that.

Q.—Then the entries commence by an item on December 1st, 1902, "To cash Central Canada Loan & Savings Company, \$127,580.05." Was that the total amount payable in respect of the shares of MacKenzie & Mann, the 4000 shares? A.—No, the total amount would be approximately \$184,000, or about 185.

Q.—\$185,000. Now where is that shown, how is that ascertained? A.—From my knowledge of the price of the stock.

Q.—About \$185,000. Then who supplied the balance of the money to take up that stock? A.—They did, MacKenzie & Mann.

Q.—By a cheque to you or by a cheque direct to the Central Canada? A.—A cheque direct to the Central Canada.

Q.—So that MacKenzie & Mann, before you made this transaction of December 1st, they had paid a certain amount on their shares? A.—Yes.

Q.—Being the difference between the total price you have just given me and \$127,580.05? A.—Yes.

Q.—Leaving out the question of what interest might accumulate. Had that payment been made by them just at the same time, December 1st? A.—Yes.

Q.—So that that was a transaction then whereby they paid in part and you the balance and the stock was taken away from the Central Canada? A.—Yes.

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Q.—Then on December 26th there is an entry "By cash \$127,580.05." What does that mean? A.—That is what date?

Q.—December 26th? A.—Oh, December 26th. They paid the loan off.

Q.—What about the interest? A.—The interest will appear here. Yes, here is the interest, over \$500 interest in full.

Q.—Over \$500 for the interest on the loan from December 1st to December 26th? Is that right? A.—Yes, it seems to be.

Q.—Over \$500 interest. Now how was that paid at that time? A.—Paid by cheque, I believe.

Q.—Whose cheque? A.—MacKenzie & Mann's.

Q.—And deposited in your bank account? A.—I believe so.

Q.—Have you entry of that here? Nothing to show that, but it was deposited, you say. Then on January the 8th, 1903, the next entry is "To cash, \$125,195.55." What does that mean? A.—That was a new loan made, I think.

MR. McLAUGHLIN: Any of these bank books you want to see, give me a memorandum. We want to assist the Commission in every way we can by producing everything.

MR. TILLEY: All right. What do you say to this? A.—That was a loan of \$125,195.55

Q.—Would there be a new application for a loan made at that time and a new hypothecation of securities? A.—I think so.

Q.—Then we would like to have that produced. You say that that loan was made on January the 8th and the former one paid off on December 26th on the same securities for almost the same amount? A.—The date here is January the 8th.

Q.—What do you say about that? A.—Well, that was a new loan that was made on the same securities.

Q.—The securities still standing in your name all the time? A.—In the name of the Manufacturers' Life, yes, I presume so.

Q.—Why do you presume that the securities remained with you if the loan was paid off? A.—I could not answer that definitely.

Q.—What cannot you answer definitely, the reason or the fact? A.—The fact that they were.

Q.—You don't know whether they were or not? A.—No.

Q.—Can you get that information here? Would the other side of the

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same sheet not show whether the securities were parted with? A.—No, that would not show.

Q.—Now let us take the other side of the sheet for the present. This side shows the securities that you held from time to time in respect of this loan, whether you call it the old loan of December 26th, 1902, which was supposed to have been paid off at that date, or a new loan of January the 8th, this page on the other side shows the securities that you held from time to time in respect of this loan or these loans, doesn't it? A.—Yes.

Q.—Then there is no entry of any securities being held in respect of the loan, either the old or the new, until January the 12th, 1902; is that right? The first entry here is December 1st, 1902; that must be January the 12th, 1903, is it not? I want you to qualify yourself as well as you can to answer the question and then we will take the answer from you? A.—Yes, that should evidently be January 12th, 1903.

Q.—There seems to be no doubt about that at all, that the securities were credited on the other side of the sheet, MacKenzie & Mann's sheet as received on 12th January, 1903, although the date at the top would indicate that it was January the 12th, 1902. That is right, is it not? A.—Yes.

Q.—Then the securities that are then shown by this sheet to have been received at that time were two hundred bonds of the Inverness Railway and Coal Company, of the par value of \$500 each, making \$100,000; and 4,000 shares of the Manufacturers' Life stock of the par value of \$100 on which \$20 per share had been paid, making a par value paid up of \$80,000. That is right? A.—Yes, that is right.

Q.—Now the 4,000 shares were actually transferred to you, according to the transfer books, on December 2nd, 1902? A.—Yes.

Q.—Or December 1st it is. Then how is it that it does not appear here as being received at that time? A.—Well, this page is merely a memorandum of the securities and evidently the date that is put in there is just the date that the memorandum was made. It is quite evident from the transfer book that the securities were in our possession from the 2nd of December.

Q.—That is not the way this book is kept, is it, Mr. Junkin, to date the transactions as of the date the book-

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keeper happened to make the entry in the book? A.—I don't think it is unless it was a slip of the pen accustomed to writing that date on that day.

Q.—On January 12th you think that that might be a slip of the pen. Apparently the 4,000 shares of the Manufacturers' Life stock, being the second entry, it could not have been received before the Inverness Railway and Coal bonds? A.—No.

Q.—As a matter of fact, though, they were the very initiation of the transaction, were they not? A.—Yes.

Q.—Were the 200 bonds of the Inverness Railway and Coal Company received before January 12th, 1903? A.—I think so. I think they were received on the date of the transfer of the Manufacturers' Life stock.

Q.—Can we verify that here? A.—I don't know that there is any way of verifying it.

Q.—Will there be any way of verifying that at your office to show the actual receipt of the bond? A.—I think it is quite possible. The hypothecation would show that.

Q.—Then we can have that? A.—Yes, we will produce that this afternoon.

Q.—Then there is nothing to show here that the stock and the bonds were in your possession at the end of the year 1902? A.—No.

Q.—And according to the book the loan was supposed to have been paid off at the end of 1902? A.—Yes, was paid off.

Q.—It was paid off. Was it not paid off with the understanding that it was to be paid out again? A.—Quite possibly.

Q.—Do not say "quite possibly." I want the fact? A.—Well, I think it was.

Q.—Do you know it was? A.—I don't know positively.

Q.—Did you make the arrangement about this? A.—I think I did.

Q.—You know you did? A.—Yes, I might say so.

Q.—You made the arrangement. Now tell us what the arrangement was? A.—Well, speaking from memory, I would say that it was that we would make them a new loan in the new year.

Q.—So that what you say is that there was an undersanding with MacKenzie & Mann that you would make them a new loan in 1903 practically similar in every respect to the loan

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that was in existence in December? A.—Yes.

Q.—And you had the securities at that time? A.—Yes.

Q.—And you retained the securities? A.—I am not sure about that. It is quite likely I did.

Q.—We will be able to tell that? A.—Yes.

Q.—And it was on that understanding that MacKenzie & Mann paid you the \$127,580? A.—Yes.

Q.—Do you know where that money was raised by MacKenzie & Mann? A.—No.

Q.—Was it on the same bank that you did business with? A.—I couldn't say.

Q.—You don't know that? A.—No.

Q.—Did you give any assurance to any person else that this loan would be re-made at the beginning of the next year? A.—I have no recollection of doing so.

Q.—You would not like to say now that you did not? A.—No.

Q.—Will your papers that you have at the office show in any way how or on whom that cheque was issued by MacKenzie & Mann? A.—I don't think they would.

Q.—They would not show the bank on which that cheque was drawn? A.—It was drawn by Mackenzie & Mann in our favor.

Q.—Certainly it would be issued by Mackenzie & Mann, but would there be nothing in your book to show on what bank it was drawn? A.—No.

Q.—And do you know? A.—I do not.

Q.—You are positive about that, that you cannot fix where that money came from? A.—I cannot now.

Q.—You have no idea? A.—No.

Q.—Did you give out any securities at that time for that money to be raised on some other bank or institution? A.—I don't remember doing so.

Q.—Would anything that you have at the office show whether you did? A.—I think so.

Q.—Well, then, you can let us have that. We must know more about that payment of \$127,580 by Mackenzie & Mann on December 26th, 1902, and the re-loaning of it on January 8th. I suppose, Mr. Junkin, that that was in view of the annual returns? A.—Yes.

Q.—It was, at any rate, a transaction to prevent that being shown in the annual return of the Company? A.—Yes.

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Q.—And that was to the knowledge of Mackenzie & Mann? A.—Yes, I presume so.

Q.—And it was merely a means of evading the necessity of putting it in the annual returns? A.—Evidently.

Q.—The payment was not in reality a payment of the loan was it? A.—Well, it was in a way. We had ample security for the loan.

Q.—That loan had not been repaid and the transaction passed out of your office as your books purported to show at that date? A.—Well, it had. If there was any verbal understanding from me that we would take it up again that would not bind the Company to do so.

Q.—You would not want to put it on that ground, now would you, Mr. Junkin?

MR. McLAUGHLIN: We want to give you the transaction actually as it is. The inferences can be drawn afterwards. The loan was actually paid off and actually re-advanced.

MR. TILLEY: I don't know. I would rather take Mr. Junkin's statement. Was any authority ever given by the directors or by any committee authorized to deal with it for the making of that loan to MacKenzie & Mann? A.—If so the minutes would show it.

Q.—Let us see the minutes then of that date, December, 1902, or January, 1903. At page 194 of the minute book, where the minutes of the Executive Committee's meeting held on December 1st, 1902, are shown, there is this entry: in the margin, "MacKenzie & Mann call loan." Then the item reads, "Call loan of \$127,580.05 at 6 per cent. to MacKenzie & Mann on security of 200 bonds of the Inverness Railway & Coal Company with 4,000 shares of the Manufacturers' Life was submitted and approved." Now was there any other reference to the payment off of that loan in the minutes before the end of the year? A.—No, the payments of call loans never appear in the minutes.

Q.—Was there any reference to the payment out of the money after the end of the year had gone by, in January? A.—I don't see any.

Q.—It is said that there is no other reference to that loan in December or January and I suppose that so far as you know that is the fact? A.—Yes.

Q.—Well then going on from that entry of January 8th, 1903, the next

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entry seems to be an item on December 28th, 1903, and there is a credit again of cash \$125,195. There is a credit of \$125,195.55. That would indicate a payment from MacKenzie & Mann would it not? A.—Yes.

Q.—And then would the interest be paid at the same time? A.—The interest was partly paid on December 26th and partly on the 31st.

Q.—No, that is the previous one? A.—Oh, you are in to the next year now?

Q.—Into the next year, \$3,200, what does that mean? A.—That would be interest. July 2nd, the middle of the year.

Q.—That was credited on interest? A.—Yes.

Q.—Well then on July 2nd of that same year, 1903, you had credited on the interest portion of the account which is kept separate from the principal items on that account, \$3,200. What did that amount represent? A.—That was the dividend received on Manufacturers' Life stock for the half year.

Q.—Being at the rate of 8 per cent. per annum on 4,000 shares, 20 per cent. paid? A.—Yes.

Q.—That would be 4 per cent. for the half year on the \$3,200? A.—Yes.

Q.—Then on December 28th was the payment of \$125,195.55 that I have referred to. That I suppose is a similar transaction to the one of the preceding year? A.—Evidently.

Q.—There cannot be any question about that; we can have the papers relating to that when prepared, or brought here. Do you know on what bank that cheque for \$125,195 was issued? A.—I do not.

Q.—Then we will take that answer for the present and probably follow it up later a little differently, but you say that is a similar transaction to what occurred at the end of the year 1902, whatever that was? A.—Yes.

Q.—Another loan was made on January 25th, 1904, within the month following the end of the year of \$128,959? A.—Yes.

Q.—Now that same amount is one of the amounts that was referred to in Mr. Blackadar's report that was produced down at Ottawa from the Department? A.—Yes.

Q.—So that when it comes to that item it comes into his report? A.—Yes.

Q.—\$128,959 on January 25th. Then I notice that at the end of

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1903 the interest purports to have been paid up on December 31st, \$3,763.45 in full on the 31st of December, 1903. Was that payment made at the time? A.—I believe so.

Q.—Can you say whether MacKenzie & Mann paid you interest in these intervals between December 26th or 28th of one year and January 25th of the following year? A.—Just as they are shown here, yes.

Q.—Can you say whether these have been charged up with interest during these intervals? A.—Yes.

Q.—Which intervals are those? The intervals between December 26th, '02, and January 8th, '03, in the one case, and between December 28th and January 25th of the year following. Did you charge MacKenzie & Mann interest? A.—No, I should not suppose we would. We had the money.

Q.—I am asking you as a fact? A.—As a fact I don't think we did.

Q.—That can be checked? A.—Yes.

Q.—We would like to have that figured out to see whether interest was paid during those two intervals. Then on January 2nd, 1904, there is a credit of \$3,200 on the principal side of the account, I suppose that is just a similar entry to the one that was in the interest account for July? A.—Yes, that was a dividend on Manufacturers' Life stock applied on principal.

Q.—The preceding one having been applied on interest? A.—Yes.

Q.—Now on December 31st, two or three days before that dividend was received, MacKenzie & Mann according to this book had paid off principal and interest and everything on that loan? A.—Yes.

Q.—So that you were not entitled to that money if that loan had been paid off? A.—The stock still remained with the Company evidently.

Q.—The stock still stood in your name in trust? A.—Yes.

Q.—And the cheque for the dividend would be made payable to your order? A.—Yes.

Q.—You having got the cheque credited it to MacKenzie & Mann? A.—Yes.

Q.—Although the account had purported to be closed and remain closed from January 2nd to January 25th? A.—Yes.

Q.—Who would make these entries, Mr. Junkin? A.—Mr. Franks.

Q.—Would he make the entry itself on this sheet? A.—Yes.

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Q.—Or would some person else do it under his instruction? A.—He would make the entry himself, I believe.

Q.—What position does he hold in the Company? A.—He is Chief Clerk in the Investment Department.

Q.—And these entries would all be in his handwriting? A.—Yes.

Q.—Then on January 25th, the loan having been re-made, there is an item on March 3rd, "Transfer from Wm. MacKenzie \$11,418.03." What does that refer to? A.—That was a separate loan that Mr. MacKenzie had had; Inverness Railway Bonds.

Q.—That is to say another account? A.—Yes.

Q.—That we will come to, an account with Wm. MacKenzie? A.—Personally.

Q.—And on some person's authority and for some reason that personal loan to Wm. MacKenzie was transferred to this loan of MacKenzie & Mann and incorporated with it? A.—Yes, and new securities were given.

Q.—We will come to the security portion of it afterwards, but that is the fact as to the transfer? A.—Yes.

Q.—And that transaction with Wm. MacKenzie is shown on the opposite page is it? A.—Yes.

Q.—We will not follow up that transaction with William MacKenzie for the present; we will deal with it later. The next item in this account is a charge for interest March the 3rd, \$1,255.72, being a transfer from the interest account where that amount is credited to the interest account and then charged up to the principal account? A.—Yes, that would be interest accrued to that date when the loan was rearranged and new securities given.

Q.—You charged up the interest in the interest account, transferred it to the principal and added it on to the former indebtedness and then rearranged the securities in a way we will see on the other side of the page when we deal with the securities? A.—Yes.

Q.—Then in July, 1905, there is a credit of cash, \$57,595.23, what does that refer to? A.—What is that?

Q.—A payment on July 5th by cash, \$57,595? A.—Yes, that was paid in cash, on account of the loan.

Q.—By MacKenzie & Mann. A.—Yes.

Q.—Or MacKenzie, Mann & Co., Limited? A.—MacKenzie, Mann & Co., Limited.

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Q.—That would be by the incorporated company. The incorporated company became liable when the securities were rearranged? A.—Yes.

Q.—Then December 30th, 1905, there is a credit of cash, \$80,365.55, and on December 30th, the same date, a credit of interest, \$471.97 which is transferred to that column from the interest column? A.—Yes.

Q.—So that those credit items of July 5th, \$57,595.23, and December 30th, \$80,365.55, and December 30th, \$471.97 closed out the account? A.—Yes.

Q.—Were the securities then given up? A.—Yes.

Q.—What is the date of the transfer of the Manufacturers' stock back to MacKenzie & Mann, December 16th, apparently 1905, the Manufacturers' stock—I see by the record of your transfers that it was on December 16th, 1905? A.—Yes, that is on account of the books being closed, for the last two or three weeks of the year, that is the transfer books. The transfer was dated back.

Q.—The transfer would be dated back; the transfer would be made when the loan was paid off in the books of the company and all transfers after December 16th would be dated as of December 16th? A.—Yes.

Q.—By reason of the rule of the company that the books shall be closed during the last half of the month? A.—Yes.

Q.—Before the payment of the dividends. Then we will follow the securities. On the other side of the account is a statement showing the securities received and securities parted with during the currency of the loan. This statement does not in any way show any break in the loan at the ends of the different years as the other account did? A.—No.

Q.—It commences with the item on January the 12th about which you are going to get further information, and 200 bonds of the Inverness Railway and Coal Company were deposited then and 4,000 shares of the Manufacturers' Life stock that we have referred to. Then on March 3rd, 1904, 200 bonds of the Inverness Railway being all the bonds of the Inverness Railway that were held against the loan? A.—By us.

Q.—By you were released to MacKenzie & Mann and other securities substituted and that was the date you say when the change was made

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from MacKenzie & Mann to MacKenzie, Mann Co., Limited? A.—Yes.

Q.—And the private loan or the personal matter under the name of William MacKenzie was incorporated in the company matter? A.—Yes.

Q.—Now was that done under any instructions in writing from MacKenzie & Mann or MacKenzie, Mann & Co.? A.—It was done to satisfy the Insurance Department in Ottawa; these new securities were securities that came under the Insurance Act, and the other securities they did not consider as coming under the Insurance Act.

Q.—Then was the change that took place as the result of the Investigation of the Insurance Department at Ottawa? A.—Yes.

Q.—And it was done pursuant to their requirement that properly authorized securities under the Act should be held for the loan? A.—Substituted.

Q.—Or substituted for the ones that were not authorized? A.—Yes.

Q.—I suppose you knew that these securities that you held for the loan originally and to which the Department objected were not authorized by the Act? A.—Yes.

Q.—Was it on account of that knowledge that the transaction was put through as a completed transaction at the end of the year and then reopened at the beginning of the next year? A.—Yes.

Q.—It was your desire not to have it appear that you carried these unauthorized securities? A.—Yes.

Q.—And would that be under your instructions that that was done? A.—Yes.

Q.—You take the responsibility for that? A.—Yes.

Q.—For the transaction having been put through in that way. The instructions would be given by you to some person else I suppose to see that it was carried out? A.—Yes.

Q.—You would make the arrangement with Mackenzie & Mann or one of them and then you would give the instructions to what officer in your company to carry it through? A.—Mr. Franks.

Q.—Then he would see that the old loan was taken out at the end of the year and the new one substituted or the new one made at the beginning of the next year? A.—As a matter of fact the intention was to pay off the loan at the end of the first year, in fact when the loan was made at the beginning.

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Q.—Let us just find out what it is you are saying about that Mr. Junkin. You say the original intention was as between whom? A.—Between myself and MacKenzie & Mann.

Q.—And when you say the original intention, do you mean the intention that existed at the time the 4000 shares were transferred to your name? A.—Yes.

Q.—Now was that intention more than in your mind, was it an intention that was expressed by the parties? A.—Yes.

Q.—What was said about that? A.—That it was just a temporary accommodation for a few days; they intended paying the loan off.

Q.—Who said that? Was this MacKenzie or Mann that you were dealing with? A.—Well I can scarcely remember now. I think it was Colonel Pellatt that saw Mackenzie & Mann about the payment.

Q.—About the payment for their 4000 shares? A.—Yes.

Q.—That is to say it was about getting the transaction completed with Mackenzie & Mann? A.—Yes.

Q.—He had, with you, been discussing with them the taking of this block of stock? A.—Yes.

Q.—And it had been decided on a month or two before you say? A.—Yes.

Q.—And then in the beginning of December he went to Mackenzie & Mann to get them to complete it? A.—Yes.

Q.—There was nothing you have told us in the books at that time that was irregular in any way in connection with this Manufacturers Life stock? A.—None whatever.

Q.—And why were you anxious to complete it before December 1st or during December? A.—Oh, it just happened that way. They were busy men, difficult to get at. They had been talking about this stock for a long time and the idea was of course that they would give their cheque for it and it was only at the last moment that a loan was suggested.

Q.—The idea was you say that Mackenzie & Mann would give you a cheque for the amount? A.—Well, give it to the Central Canada.

Q.—Give it to the Central Canada where the stock was pledged. They would arrange it in some way themselves? A.—Yes.

Q.—And then at the end of the time, or when the time came to close it they

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wanted some accommodation for a time? A.—Yes.

Q.—Well then any idea you got of a speedy payment of that loan was entirely from Mr. Pellatt? A.—Well largely.

Q.—Did you get it from any person else? A.—I think I did from Mr. Mann.

Q.—What idea did you get from Mr. Mann? A.—That it was just a loan for a few weeks at the longest.

Q.—This was December 1st. A few weeks would put you over the end of the year would it not? A.—No, the idea was that it would be paid off before the end of the year.

Q.—Then do you say that the idea was that it was to be paid off before the end of the year? A.—Yes.

Q.—If that had not been the idea would you have made the loan? A.—I don't think I would.

Q.—Why? A.—Well I would not want to have it appearing in our books.

Q.—Then do I understand from you that at the time you made the loan to Mackenzie & Mann you appreciated that it was an improper security that you were lending money on? A.—Well I appreciated that it was security that did not come under the Insurance Act. I considered the security very ample, as a matter of fact the total security was \$274,000 for a loan of \$125,000.

Q.—You thought that as a matter of judgment, if it was not for the technicality of the Act, that it was a perfectly legitimate and proper transaction? A.—That is the idea exactly.

Q.—What you mean by that it that it was a perfectly safe transaction? A.—Yes.

Q.—You knew though that it was not a transaction that would pass the Department at Ottawa if discovered? A.—Yes.

Q.—And for that reason you say that you intended that it was your understanding that it would be a temporary matter until it could be otherwise arranged by Mackenzie & Mann? A.—Yes.

Q.—Then was there any correspondence between you and Mackenzie & Mann referring to that phase of it that it was to be a short loan, a temporary matter and must be lifted at once? A.—No correspondence just verbal.

Q.—You would have correspondence would you not if a serious thing like that had happened, that they got a loan for a few days, two or three weeks at the outside and did not take care of

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it at the end of that time? A.—No, not necessarily.

Q.—It went on during the whole of 1903 and down to the time that the Department insisted on it being put right? A.—Yes.

Q.—And during the whole of that time you say there is no letter or any communication in writing that passed between you and Mackenzie & Mann in which you complained of their not having carried out their arrangement with you? A.—No, I believe there is none.

Q.—Can you say, if there is no written demand on them to carry out the arrangement or any complaint in writing, was there any complaint verbally? A.—Oh, no peremptory complaint; just an intimation from time to time that it would be well to substitute other securities or repay the loan entirely.

Q.—A sort of little friendly chat? A.—Well, you can put it that way.

Q.—Is that as strong as you ever put it to them? A.—Well, no, not exactly.

Q.—Then let us have it exactly. What would you say to them? A.—Well, they are very difficult men to see to begin with and it was Mr. Lukes I generally saw in connection with the matter. I intimated to him pretty strongly several times that it would be well to get this loan paid up, although the security was very ample, still they were securities that were not under the Insurance Act.

Q.—You say that from time to time you saw Mr. Lukes. Who was he? A.—He is one of the financial men in the Mackenzie & Mann Company.

Q.—Connected with the Canadian Northern Railway is he not? A.—Yes.

Q.—You saw him and because you say you could not see Mackenzie & Mann? A.—Well it was often difficult to see them, they were out of town so much.

Q.—Mackenzie was a very regular attendant at your Board meetings? A.—Mr. Mann.

MR. McLAUGHLIN: Mackenzie was never there yet.

MR. TILLEY: You saw him there? A.—Yes, occasionally.

Q.—Now which is it, occasionally, or as you put it before, frequently. A.—Well it was Mr. Hanna I said was a very regular attendant.

Q.—I remember you did mention Mr. Hanna in that way; probably you

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were not quite so positive about Mr. Mann, but I certainly got the impression that Mr. Mann was a pretty good director too. Wasn't that right? A.—Well, he is not as regular in his attendance as Mr. Hanna.

Q.—But at any rate you saw him there. Did you ever mention it to him at any Board meeting? A.—Yes, I think I have. In fact I can say I have.

Q.—Bring it up in the open meeting of the Board? A.—No, just to Mr. Mann.

Q.—Did the other members of the Board of Directors know that this was an unauthorized security? A.—Oh, I think so.

Q.—Was that feature of the transaction discussed? A.—Yes I think it was.

Q.—Many times? A.—No, not many times.

Q.—But it was discussed you say with the Directors before the Insurance Department found any fault with it? A.—Yes.

Q.—And was a matter then in the Company of common knowledge amongst the persons who were in the control and management of the Company? A.—I think so.

Q.—And nothing was ever done by the Directors, nothing put on the record to show their disapproval of it? A.—No, I think not.

Q.—Was there any Director that you know of that ever spoke to Mackenzie & Mann, other than yourself? A.—Not that I know of.

Q.—It was entirely left for you to attend to and you say that there was nothing in connection with the affairs of your Company that made it important that this transaction with Mackenzie & Mann when it was first put through should be put through during that December of 1901 rather than left until the next year or whenever they were ready to take it up? A.—No, nothing.

Q.—Was it a personal matter in any way between you and the Central Canada? A.—No.

Q.—Were the Central Canada requiring that loan to be taken up? A.—No.

Q.—Were you liable to the Central Canada directly I mean? A.—Not directly.

Q.—You had guaranteed Messrs. McCuaig & Strachan? A.—Yes.

Q.—To assume their obligations, but you have never given any direct con-

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tract to the Central Canada to pay the loan? A.—No.

Q.—Then were McCuaig & Strachan or Mr. Cox or any person being pressed in connection with that loan that you had guaranteed? A.—No.

Q.—There was no pressure you say from any source? A.—None.

Q.—To make it important, either from your standpoint personally or from the standpoint of the Manufacturers Life Insurance Company or any of its Directors, that that transaction should be put through as of December 1st in the way that it was? A.—None.

Q.—Then going on with these securities, I see that these securities that were put in on March 3rd, 1904, instead of the securities that had been released, the bonds of the Inverness Railway & Coal Company, were as follows: 1,600 shares of the Canadian Lake & Ocean Navigation Company common stock; par value \$100 per share; loan price entered as \$33 $\frac{1}{3}$ per share, making \$53,333. 1,650 shares of the Imperial Rolling Stock Company, common stock of the par value of \$100, loan price being entered as \$33 $\frac{1}{3}$ per share, making a total of \$55,000. 8,566 shares of the Vancouver Gas Company common stock of the par value of \$20 per share; loan price \$3.52; making \$50,152. That cannot be right can it? This item of \$50,152 opposite the Vancouver Gas Company stock as being the total loan price of it is just twice too much, it should be half that which would make it \$26,076. You say then that there was no arbitrary loan price fixed on these stocks, that was a way in which the total loan was divided amongst the different securities, is that right? A.—Yes, we valued the whole securities at that time at about \$384,000.

Q.—What are you referring to as the whole securities? The Canadian Lake & Ocean Stock, the Imperial Rolling stock and the Vancouver Gas stock? Or those stocks including the Manufacturers Life stock? A.—Including the Manufacturers Life stock.

Q.—What value did you put on the Manufacturers Life in reaching that amount? A.—\$45 a share.

Q.—It was 20 per cent. paid stock?

Q.—The purchasers having paid about \$46 per share under this series of transactions you have spoken of? A.—Yes.

Q.—That would make a total of how much at \$45 a share? A.—\$180,000.

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Q.—\$180,000 for Manufacturers Life stock. Then the balance of these three stocks, what value did you put on those? A.—\$203,896.

Q.—You are saying that is the market value? A.—Yes.

Q.—Where do you get those market values from? A.—From inquiry at the time in various places, from brokers and others.

Q.—What you produce is a memo. that has been prepared relating to this transaction and in the margin of it you have shown what you considered the market value of those stocks was at the time? A.—Yes.

Q.—And for the Canadian Lake & Ocean Navigation Company stock, you have put that down at 50, making \$80,000? A.—Yes.

Q.—You are putting that in as being worth \$50 per share at that time? A.—Yes, that was considered a very conservative valuation at the time.

Q.—We will come to that later. Then the Imperial Rolling stock you have put in at \$50 as well, making \$82,500, is that right? A.—Yes.

Q.—Then the Vancouver Gas Company stock you have put in at \$6 per share, making \$41,396? A.—Yes.

Q.—Then the total of these market values of the three securities that you got at that time would be \$203,896 computed in that way? A.—Yes.

Q.—It is pointed out that the \$41,396 is multiplied incorrectly; it should be \$51,396. Is that right? A.—Yes.

Q.—\$51,396 is right. That would make the total of those securities? A.—\$10,000 more.

Q.—\$213,896.—That is right. Now where did you get these figures from that are put here in lead-pencil on this memorandum? This memorandum has just been prepared yesterday or to-day? A.—Yes, but it was prepared from facts that were ascertained at the time.

Q.—Where were those facts put on record. The only facts put on record in this ledger do not agree with that. The figures that I gave as the loan price are not at all what you computed the market value of the stock to be, but that only shows an arbitrary division of the loan you were making as against these securities? A.—Yes.

Q.—That seems to be very plain. Then where did you record this market value, where did you make any reference of it so that you have got it again to-day? A.—I think it will appear in correspondence in the office.

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Q.—What correspondence? A.—Correspondence with the Department at Ottawa, the Insurance Department.

Q.—Is there any other correspondence that relates to this matter that is not shown in that correspondence with the Department at Ottawa? A.—No, I think our inquiries were mostly verbal, from brokers.

Q.—Did you make inquiries yourself? A.—I did.

Q.—And these are the result of your inquiries? A.—Yes.

Q.—From brokers and others? A.—Yes.

Q.—And the facts relating to that may be in this correspondence you say, if it is not there you don't know where it is? A.—No.

Q.—Who got this up then this morning, who put down these figures? A.—Mr. Franks.

Q.—Then would you just ascertain from Mr. Franks where he got these figures. Mr. Franks says it is in the correspondence with the Department, and whatever is shown there? A.—Is the result of my inquiries. That will be the letter.

Q.—A letter written by you to Mr. Fitzgerald on March 2nd, 1904? A.—Yes.

Q.—Other than what you said in that letter you made no record of the market value, that is what I want to establish? A.—No.

Q.—You did not make anything in your books at the office or in the records there? A.—Not that I am aware of.

Q.—I thought from something you said that you got it in the shape of letters from people advising you what these stocks were worth? A.—No, my inquiries were verbal.

Q.—Don't you in your security register, if that is what you call this book, or whatever book is called your security register, don't you show the market value of stocks? A.—No.

Q.—You do in the Government return that you make? A.—Yes.

Q.—Then don't you keep any record in the security register or any place in your books so that you can compile that annual return from it? A.—Generally most of the things are listed.

Q.—So that when you make your annual return at the end of the year, when you have it ready to swear to it, you would have to take the value at that time? A.—Yes.

Q.—And it would not be any use to you to keep the value at the time

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it comes in? A.—No, it was always fluctuating.

Q.—You do not as a matter of fact make a record of the market value of a security at the time you receive it and put it in your books? A.—No.

Q.—You divide every group of securities you get to hold in respect of any particular loan—you apportion that, do you, to the loan? A.—Yes.

Q.—As you think a fair ratio between the different securities you receive? A.—Yes.

Q.—Then on May 4th apparently 8,566 shares of Vancouver Gas Company common stock that you received on March 3rd of the same year were delivered by you? A.—Yes.

Q.—And in substitution therefor you received on the same day 1,500 shares of the Canadian Lake & Ocean Navigation Company common stock valued at 33½ for the purpose of our loan? A.—Yes.

Q.—And put in there at \$50,000. You had to apportion practically \$50,000 against this Canadian Lake & Ocean Navigation Company stock? A.—Yes.

Q.—In lieu of the \$50,000 you had apportioned before against the Vancouver Gas Company's stock? A.—Yes.

Q.—That is all those figures mean. That is the whole loan was 130 to 140,000 dollars with interest at that time and you had these three securities and you put one-third roughly opposite each security as being the amount of the loan applicable to that security? A.—Yes.

Q.—That is just an arbitrary amount put in yourself and has nothing to do with? A.—With the market value of these securities.

Q.—Except that you would probably apportion that having regard to the market value? A.—Somewhat, yes.

Q.—You would have regard to the market value when making the apportionment; that is to say if you had \$100,000 of security and you had only loaned a man \$1,000 on that security, the loan price here would be \$1,000 on that security whether it was worth \$100,000 or not? A.—That is the idea exactly.

Q.—Then just to conclude this. In lieu of that Vancouver stock you got some more Canadian Lake & Ocean Navigation Company stock? A.—Yes.

Q.—And in December, 1905, so far as this record goes the transaction

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seems to have been closed out, and on December 30th, being the date when according to the financial statement on the other side of the page the loan was paid off and interest and principal all repaid, you delivered up to Mackenzie & Mann all the securities that you then held? A.—Yes.

Q.—Consisting of the 3,100 Navigation Company stock, 1,050 Imperial Rolling stock and 4,000 Manufacturers' Life stock? A.—Yes.

Q.—That transfer of the Manufacturers' Life stock having of necessity you say, or in order to keep your books uniform, the transfer being dated December 16th, because the books were supposed to be closed from December 16th? A.—Yes.

(Adjourned to 2.30 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., April 26th, 1906.

Examination of Mr. Junkin continued.

MR. TILLEY: Did you get the information that we were asking for this morning about the transactions showing the payment up of that loan to Mackenzie & Mann? A.—Yes, they are bringing those up. They are not here yet. This file is the inquiries—I said this morning that I was not sure whether the inquiries were verbal or whether we had any written records. These are the written records of the inquiries made at the time regarding these securities, and showing the nature and assets and liabilities of each company, and so on.

Q.—Were those supplied at the time? A.—The information was supplied us at the time, the documents themselves a few days afterwards, just so that we could have them officially on file, but we had the information in our possession, the documents were shown to me before the loan was made.

Q.—These letters were furnished to you by Messrs. Mackenzie & Mann & Co., Limited, on May 30th, 1904? A.—Yes.

Mr. Tilley put in as exhibit 57, agreement between Mr. Gooderham and Mr. Cox, dated 1st December, 1898.

MR. McLAUGHLIN: That is not put in by Mr. Junkin.

MR. TILLEY: No; it is produced on behalf of Mr. Cox. Q.—It is said, and I put it down here so that if it be afterwards verified to be so, there

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need be no need of mentioning it again, but this is subject to verification, that the transaction between Mr. Cox and Mr. McCuaig and Strachan was completed on the 20th July, 1900, would that date accord with your recollection, that would make it six months before the 1st January that we thought it might be this morning from the letter that was written? A.—I was looking that up since; it was sometime in July, I thought I had it the 26th July.

Q.—I am told it was 20th July, and that is within a week of the time you would fix if you were fixing it yourself? A.—Yes.

Q.—So that the reference in the letter as of the 1st January, that would only refer to the last time when the accounts had been probably totalled or interest computed and so on? A.—Yes, sir.

MR. TILLEY: In order to complete the record of the exhibits, the next exhibit will be an extract which we will have made from the minute book that I read from yesterday that I notice the notes of evidence did not report, of the minutes read. (Extract from minute book to be filed at exhibit 58.) Then I put in the three letters I read this morning passing between Mr. Junkin and Messrs. McCuaig and Strachan in April and May. (Marked as exhibit 59.)

MR. McLAUGHLIN: We have made a search and we have this letter and those telegrams.

MR. TILLEY: Do this letter and these telegrams complete the correspondence you had with them about that matter? A.—The correspondence you asked for this morning.

Q.—The first is a letter of May 1st, 1901, that is the same date as the last of the letters I read this morning, a letter from J. F. Junkin to Clarence J. McCuaig, Montreal, "I hereby agree to purchase from you, etc." (Reads.) That would be, then, the block of stock you were referring to this morning as taken over from Mr. McCuaig in addition to what this agreement of 1st May called for? A.—Yes.

Mr. Tilley filed the following telegrams produced by Mr. McLaughlin, which together with letter of May 1st, 1901, above referred to, were made a part of exhibit 59:

Copy of telegram, Mr. Junkin to McCuaig, dated May 3rd, 1901. "Will \$29,000, etc."

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Telegram, May 3rd, 1901, Mr. McCuaig to Mr. Junkin, "It will be satisfactory if you pay, etc."

Telegram, 29th April, 1901, Mr. McCuaig to Mr. Junkin, "Strachan not entirely satisfied with terms, etc."

Telegram, 26th April, 1901, McCuaig to Junkin, "Have been unable to see Strachan."

Telegram, McCuaig to Junkin, April 26th, 1901, "Will be there to-morrow, unless, etc."

Telegram, J. F. Junkin to C. J. McCuaig, April 26th, 1901, "I can arrange to-morrow, etc."

Q.—So that those telegrams were messages that passed before the arrangement was completed as set out in the letters of May 1st? A.—Yes.

Q.—And apparently you had an option on the stock at that time? A.—Yes, after paying that thousand dollars.

Q.—You paid the thousand dollars, thereby obtained the option, and then the telegrams were passed which finally ended in the transaction of May 1st? A.—Yes. I might just at this point endeavor to clear up a point that may be in doubt, that is if I conveyed the impression yesterday in any way that the voting power in either of the old companies of the policy holders was greater than in the new I want to set that right. I did not intend to convey such an impression.

Q.—Convey what? A.—That the voting power in the new Manufacturers' Life of the policy holders is any less than it was in the old Manufacturers' Life or in the Temperance and General. I had no intention of giving such impression, and the Charters do not bear it out. The Charters show clearly that the voting power was the same in the new company as in the old company.

Q.—In what respect do you think you had made any mistake in regard to that? A.—In reading the press; some of the press has it differently.

Q.—You say it might be open to the construction that you said that the rights of policy holders both in the new company were less than the rights they had in the old company? A.—If that impression were conveyed in any way it was not the impression I intended to convey; the voting power was the same.

Q.—Was there anything else? A.—Yes; in refreshing my memory since I went to the office at one o'clock my recollection is now that Messrs. Mackenzie & Mann gave me to under-

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stand somewhere about a year in advance that they were going to take a considerable block of the stock, that is in advance of December, 1902.

Q.—And then you carried forward the understanding that you had several months instead of making it within a month or two you say some time during that year, that is practically what that amounts to? A.—Yes.

Q.—In 1901, do you say that might— A.—It might possibly have been the latter part of 1901 or early in 1902.

Q.—Is that all? A.—Yes, that is all.

Q.—You produce a copy of letter from yourself to Messrs. Mackenzie, Mann & Company, Limited, May 30th, 1904; I will read the letter from Mackenzie, Mann & Company to you of May 23rd, 1904, first. (Reads.) "In compliance with request of your letter," etc. With that statement is included the balance sheet of the Imperial Rolling Stock Company, Limited, showing their liabilities and their assets of December 31st, 1903; also a balance sheet of the Canadian Lake & Ocean Navigation Company, Limited, showing their assets and liabilities as of February 29th, 1904; also a statement of the Canadian Lake & Ocean Navigation Company, Limited, annexed, showing their profit and loss account, and their operating account, all at the same date, February 29th, 1904; and then the Revenue account of the same company from September 5th, 1902, to February 29th, 1904. You acknowledge that letter by yours of May 30th, 1904, to Mackenzie, Mann Company, Limited (Reads letter.)

Correspondence with Mackenzie-Mann Company and statements referred to filed as Exhibit 60.

Q.—Here is a bundle of papers relating to the Mackenzie & Mann loan; here is a memo., is that in your handwriting? A.—Yes.

Q.—"Write cheques for dividends on 4,000 shares of Manufacturers stock, J F. J., in trust as follows: (Reads memorandum): when would that memo. be made? A.—That would be at the end of the year.

Q.—Which year. A.—I could not say.

Q.—That would be this year, would it not, \$104.60? A.—Yes.

Q.—That is the end of the year 1902? A.—Yes.

Q.—And that \$419.95, where does that come from? A.—It is part of a

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cheque. That came out of this cheque of \$125,195.55.

Q.—That is, you received a cheque for \$127,580.05 for principal, and then you received this interest, that is to say, there was \$128,000, which would just cover both items, \$419.95, and \$127,580.05? A.—Yes.

Q.—What does this mean; here is a cheque for \$128,000 on the copy of the deposit slip for December 26th, 1902, which is the date this payment is credited in the books, \$128,000; does that mean that is the cheque that represents that principal and interest paid that day? A.—Yes, it was deposited in our bank.

Q.—Why is it marked "Pellatt?" A.—The cheque came from Pellatt on account of Mackenzie & Mann account.

Q.—Sent to you from Pellatt? A.—Yes, acting as their brokers.

Q.—You say that, do you, because the name Pellatt is here? A.—Yes, sir.

Q.—You remember that is so? A.—Yes, my recollection is to that effect.

Q.—You did not remember that this morning? A.—No.

Q.—Would that be accompanied by any letter? A.—No, I scarcely think so.

Q.—Can you now tell me anything more about that transaction at the end of the year 1902 than you did this morning? A.—No more than that, that we received the cheque through Pellatt, I have not had time to go into the matter during the short interval.

Q.—Did you check over the account to see how the interest was carried forward, whether you charged interest during the time from December 26th to January 8th of that year? A.—No, I have not; the interest was not charged during the interval that the loan was off the book.

Q.—That is what you are informed from some one? A.—From Mr. Franks.

Q.—I would like to see the statement? A.—My attention was divided, I was looking up another matter.

Q.—Did you get it in the same way for December 28th, 1903, to January 5th, 1904—Mr. Franks says that was not copied in the statement book, do you know why that was? A.—No, I do not.

Q.—This memo. that was made in your handwriting would be made December 26th, would it, about? A.—

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Yes, that was just to balance up the interest, that was why the cheque was divided into two parts.

Q.—One cheque was to be made for \$104.60, and the other was to be made out for the balance? A.—Yes.

Q.—And the \$104.60 was to be credited on this account, was that an item that Pellatt & Pellatt had paid to close up that account? A.—They had paid the cheque for an even amount which was a little more than the amount required.

Q.—That \$128,000 was just \$104.60 short of the interest, was it not? A.—Yes.

Q.—At the end of the year there was still \$104.60 owing on that indebtedness for interest? A.—Yes, and we took that out of the dividend.

Q.—The dividend cheque would be made out to J. F. J. in trust, would it not, because it stood in your name? A.—Yes.

Q.—You had one of the cheques made for \$104.60 in your name and the other was made out for the balance in your name? A.—Yes.

Q.—It says here: "Colonel Pellatt will give in cheque for \$104.60 on 31st, balance of interest on MacKenzie & Mann loan"—that means that on the 31st December Pellatt was to give a cheque for \$104.60, the balance of interest that was still due on that loan, and he was to get one of those cheques on account of the dividend when the dividend would be payable in January? A.—Yes.

Q.—You were to endorse over to him that dividend cheque for \$104.60. "The other cheque may be handed to J. F. J. to be endorsed back to the company on MacKenzie & Mann Account;" where is that cheque that was endorsed back? A.—What is the amount?

Q.—It would be \$3,200; here is one \$104.60, and \$3,095.40? A.—Yes.

Q.—"The other cheque may be handed to J. F. J. to be endorsed back to the company on MacKenzie & Mann's account; where does this appear in MacKenzie & Mann's account; are there any other accounts of MacKenzie & Mann that were current then and are closed now? A.—No. When we took up the loan it was less than it was before; they had evidently applied this cheque on reducing the amount.

Q.—What you say is the balance of the cheque was probably endorsed by you, sent to Pellatt & Pellatt and credited by Pellatt & Pellatt on that

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\$128,000 that was sent to you by cheque so that when you took the loan on again it was for a less amount? A.—Yes.

Q.—You think the amount of that second cheque on account of the dividend went in reduction of the amount of the principal that you had to loan out again in January, 1903? A.—Yes, I am satisfied of that.

Q.—As a matter of fact the intention was to reinstate the loan in January, 1903, and put it on the same footing as it would have been if it had always remained with you from 1902 on? A.—Yes.

Q.—The difference in these two amounts does not signify anything except that while it was off your books something had been credited on account as received from the security pledged? A.—Yes.

Q.—The next document attached is account of MacKenzie & Mann with the Manufacturers' Life Insurance Company, dated 26th December, 1902, and it is December 1st, 1902. "To loan on call at 6 per cent. \$127,580.25. December 26th, interest on call loan to date \$524.35"—\$524.55 it is in the account for that loan; on the 2nd January, 1903, "Received from Messrs. MacKenzie & Mann the sum of \$3,175.40 being on account of loan for the Bank of Montreal, Toronto Branch, signed for the Manager, that is the receipt then for the balance of that dividend evidently? A.—Yes.

Q.—And that is a receipt written on your receipt forms? A.—Yes.

Q.—And written by Mr. Franks? A.—Yes.

Q.—And then that indicates that the other cheque for that dividend, besides the one for \$104.60, was made out by you probably in favor of the Bank of Montreal, made to J. F. Junkin in trust, and then it would be endorsed either in blank or to the Bank of Montreal, and was taken by you apparently down to the Bank of Montreal and paid in on MacKenzie & Mann's loan account? A.—It would be taken by some one connected with our company.

Q.—Yes, down to the Bank of Montreal and credited on the loan? A.—Yes.

Q.—How does it come the cheque for that transaction was taken down to the Bank of Montreal—A.—It may have been given to Colonel Pellatt, as he seems to have been handling the matter for MacKenzie & Mann.

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Q.—It is written by you and on your own receipt form, so that it was prepared in your office, your office knew how the transaction was going to be carried through, you knew what was going to be done with the cheque? A.—Yes.

Q.—How did it come that the cheque whereby that loan was paid up or the entries were made to show it was paid up, how is it that that cheque—

MR. McLAUGHLIN: Mr. Junkin does not know personally about that. Mr. Franks handled that matter himself.

MR. TILLEY: Do you mean to say you would rather have Mr. Franks tell about it than Mr. Junkin?

MR. McLAUGHLIN: Mr. Franks knows about it.

MR. TILLEY: Q.—How does it come, Mr. Junkin, that that interest or that payment on account of loan was credited down in the Bank of Montreal apparently through your office when the cheque which was credited in your books came from Mr. Pellatt? A.—I don't know.

Q.—Apparently this was a MacKenzie & Mann loan with the Bank of Montreal? A.—It would seem so.

Q.—Had you an account at the Bank of Montreal?

MR. McLAUGHLIN: Mr. Junkin can only say it seems so or he supposes so.

MR. TILLEY: Mr. Franks has been telling him anything that occurred to him might be wrong.

A.—As a matter of fact I do not know the particulars of the matter.

MR. SHEPLEY: There is not any objection to Mr. Tilley going on and asking the witness; if the witness does not know anything he can say so.

JUDGE MacTAVISH: A.—Yes, and then get the information from some officer that does know.

MR. TILLEY: Q.—What do you say about this, do you know anything about it? A.—From the entries here I would suppose that the loan was taken up by Colonel Pellatt for MacKenzie & Mann; with regard to these dividend cheques I do not.

Q.—Had the Manufacturers' Life Insurance Company any bank account with the Bank of Montreal at that time? —A.—No.

Q.—Had you any dealing with the Bank of Montreal personally at that

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time about this matter in any shape or form? A.—No.

Q.—You are positive about that? A.—Yes.

Q.—That any arrangement that was made with the Bank of Montreal to carry that for the time, that you wanted it off your books, any such arrangement was not made by you? A.—No.

Q.—The next is receipt May 4th, signed by MacKenzie, Mann & Company, received 200 coupons for \$1,250 each, etc. (Reads)—what does that mean? A.—That would be the interest coupons.

Q.—You handed them out to MacKenzie & Mann for them to cash? A.—Yes.

Q.—Are they credited in your books, or did they just pay the interest on the loan? A.—They paid the interest on the loan and they took the coupons.

Q.—You gave them the coupons and they paid the interest? A.—Yes.

Q.—A letter from you to MacKenzie & Mann of January 13th, 1903; re loan: "I enclose a statement," etc. (Reads)—that appears to be a letter from you to MacKenzie & Mann in which you were advising them of the amount that was necessary to reinstate that loan on your books? A.—Yes.

Q.—And the difference between the two amounts was, as you have said, the payment of interest? A.—Yes.

Q.—Did you get a new hypothecation at that time? A.—Yes.

Q.—Where is it? A.—It would be returned to them after the loan was paid off.

Q.—Do you return your letters of hypothecation? A.—Yes, when they are asked for.

Q.—Were they asked for in their case? A.—They are generally asked for in every case by brokers and others who have call loans.

Q.—Because I see there is one letter of hypothecation here, but not with reference to that? A.—It is practically the same thing as a promissory note, and when a man pays his note he expects to get it back.

Q.—Is not that the form here, March 3rd, 1904, that was when it was re-arranged? A.—Yes, that would be another one.

Q.—You still have this one, and it is paid off? A.—Yes, it is evidently an oversight on their part not asking for it. Mr. Franks says it was an oversight on his part not giving it

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back, that they did as a matter of fact ask for it.

Q.—Receipt October 30th, for further coupons; I suppose that would be just in the same way? A.—Yes.

Q.—March 3rd, 1904, "Received from the Manufacturers' Life Insurance Company 230 bonds of Inverness Railway," etc. (Reads)—that refers to the receipt back of the Inverness bonds for which something else was substituted? A.—Yes.

Q.—William Fitzgerald, here is a copy of a letter, February 26th, 1904, "Your esteemed favor of 25th inst.," etc. (Reads). Then letter of March 11th from you to the Superintendent of Insurance, "I am now informed this company was incorporated under special Acts," etc. These are letters then that were written by you to the Superintendent of Insurance after the Superintendent of Insurance had made the inspection at the end of the year, 1903, and discovered this payment off of the loan at the end of 1903, and the granting of a new loan at the beginning of 1904? A.—Yes, and asking for other securities, or else that the loan be paid off.

Q.—March 9th, 1904, "In answer to your request," etc. (Reads.) Then follows the new letter of hypothecation of March 3rd, 1904, and at that time the shares hypothecated with the company were the 1,600 shares of the Canadian Lake & Ocean Navigation Company, 1,650 of the Imperial Rolling Mill Company, 8,566 of the Vancouver Gas Company, and 4,000 of the capital stock of the Manufacturers' Insurance Company, and in the margin of that is an agreement to substitute 1,500 of Canadian Lake & Ocean Navigation Company, Limited, stock in lieu of the Vancouver Gas Company stock, which you afterwards obtained the release of; there is a statement of the securities and values? A.—With regard to those values of these different shares I found this this morning on the file—

Q.—With regard to the market value? A.—Yes.

This is a memorandum that was made at the time after thorough investigation as to their market value.

Q.—This memo in this exhibit that you made upon which you based your letter to the Department, setting out the values of those different stocks. A.—Yes.

Q.—On May 20th, 1904, there is a letter from you to L. Lukes of Messrs. MacKenzie, Mann & Company,

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"Please bear in mind," etc. (Reads.) Then letter to MacKenzie, Mann & Company, June 4th, re Vancouver Gas Company stock. (Reads.)

Q.—Then this memo, that is a memo you had prepared I suppose to be brought before the Executive Committee? A.—Yes.

Q.—And it is stamped Approved by the Executive? A.—Yes.

Q.—For that transfer from the Vancouver Gas Company to the Canadian Lake & Ocean Navigation Company? A.—Yes.

Q.—July 22nd, letter from you to Mackenzie & Mann re call loan. (Reads.) Letter 24th November to Mackenzie & Mann, "We have to notify you that your loan on call," etc. (Reads.) That was in accordance with the company's general practice, whenever we reduced the rate of interest on one call loan, following the banks we reduced it on all call loans; whenever we raised the rate we raised it on all, so that Mackenzie & Mann always paid the same rate of interest that we were getting from brokers or any one else that had call loans with the company.

Q.—At the date of that letter there was some different rate of interest you were charging, either lowering the rate or increasing it? A.—It was an increase from 5 to 5½ per cent.

Q.—So that this was just one of several letters you were sending out to people who had call loans with you? A.—Yes.

Q.—Letter Mackenzie & Mann to you, November 30th, (Reads); letter December 1st, 1905, to Mackenzie & Mann, re loan on collateral, etc. (Reads.) A.—Correspondence with Mackenzie & Mann just referred to filed as Exhibit 61.

Q.—You were going to verify the date when you got the securities under that loan; you remember it is said here "Received January 12th, 1902, bonds of the Iverness Railway & Coal Company"—did you check that to see when you first had those hypothecated to you? A.—No, I have had no opportunity of doing so.

Q.—You have a note of that to follow that up? A.—Yes.

Q.—You were going to say whether you retained those bonds over the year; you have not looked that up yet? A.—No.

Q.—In fact you have given us all the information you have been able to acquire since you were here this morning? A.—Yes.

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Q.—That paying off of the loan in December, 1903, and issuing the money again to Mackenzie & Mann in 1904 came to the notice of the Insurance Department? A.—Yes.

Q.—In the previous year the same transaction had taken place, but so far as appears there was no notice brought to the attention of the Department about that? A.—No.

Q.—That would and did come to the knowledge of the Department apparently by reason of the Department noticing the payment out of money in the month of January? A.—Yes.

Q.—What other transactions had you at the same time that was involved in that payment out of money in the month of January in respect of the December receipts? A.—I could not say without referring to the books.

Q.—Have you got the book here? A.—No, the cash book showing that is not here.

Q.—Let us see the Dominion Coal account and the Crows' Nest Coal account; Mr. Blackadar in his report which has been put already (Report dated February 24th, 1904) puts in this way: "Prior to the 28th December, 1903," etc. (Reads)—the first of those call loans is the one we have been dealing with? A.—Yes.

Q.—And the second one? A.—Is Mr. Mackenzie's.

Q.—What did that transaction arise out of; I see the account is headed "William Mackenzie per Pellatt & Pellatt," what does that mean, per Pellatt & Pellatt? A.—They were acting as his brokers in the matter.

Q.—Did you negotiate then with Pellatt & Pellatt or with Mackenzie? A.—With Pellatt & Pellatt for Mr. Mackenzie.

Q.—What was the transaction that took place, I see April 29th, 1903, you made a loan of \$11,000 through Pellatt & Pellatt acting for William Mackenzie? A.—Yes.

Q.—And certain securities were then hypothecated with you consisting of 30 bonds of the Iverness Railway & Coal Company of the par value of \$500 each, making \$11,000? A.—No, making \$15,000 par value.

Q.—But the loan price was \$11,000, which would be at the rate of about 73 1/3? A.—Yes; the market as was explained in one of those documents you read being 96.

Q.—I thought said 90? A.—I said this morning 90, but I see from the written memorandum made at the time that it was 96.

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Q.—I see that call loan was authorized by a minute in the minutes of the Executive Committee held on May 4th, 1903, at page 237, as follows: "A call loan to William Mackenzie per Pellatt & Pellatt of \$11,000, on 30 bonds, \$500 each, of Inverness Railway & Coal Company was approved?" A.—Yes.

Q.—At that meeting there were present Lieutenant-Colonel Pellatt, Lloyd Harris, and others? A.—Yes.

Q.—That call loan was negotiated through Colonel Pellatt? A.—Yes.

Q.—Were those securities authorized by the Act, the Inverness Railway & Coal bonds? A.—No, technically not; we could loan on railway bonds if the railway paid dividends for the last two years. The Inverness Railway, although a strong corporation, had not been paying dividends.

Q.—So that this was a loan to Mackenzie & Mann of \$11,000 through Pellatt & Pellatt on an unauthorized security? A.—Yes.

Q.—That was in April, 1903? A.—At that time we were not paying much attention to the technical standing of the security as we do now, looking more at the value of it, if the security was really good and if it came technically within the Act. Since the Department began calling more attention to the matter we have been more particular.

Q.—When did the Department commence calling more attention to the matter? A.—I think along in 1903.

Q.—Do you mean to say the inspection at the end of 1903 or during 1903? A.—Probably during 1903.

Q.—Had you any correspondence with the Department about unauthorized securities during the year 1903?

A.—The correspondence has already appeared I think in the Ottawa evidence.

Q.—You say there is no correspondence except what has appeared in the Ottawa evidence regarding unauthorized investments? A.—I think not.

Q.—Was it present to your mind when this transaction went through that it was an unauthorized investment the same as this transaction with Mackenzie & Mann that we referred to before, December, 1902? A.—It probably was, they did not technically come within the Act, but as I said we were paying more attention to the question of whether the security was really good or not at that time.

Q.—Of course that would be a very important matter whether they were really good, but I understood from you

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this morning that it was present in your mind in December, 1902, when you advanced this \$12,000 that that was not an authorized investment, and for that reason it was to be re-paid in a few days. that that was a mere temporary matter? A.—Yes, that is quite correct, while we were not paying as much attention to it then as now we preferred remaining within the Act as far as possible.

Q.—That is a transaction you would not have put through with any person but a director, would you, a small loan like that of \$11,000 on an unauthorized security, you were paying enough attention to the Act at that time for that? A.—If the parties covenants were as good as Mr. Mackenzie's and the margin of security were as large as it is there, more than 20 per cent., and we were given to understand it would be paid off in a short time.

Q.—You have incorporated that into this transaction too—were you given to understand that? A.—I think it is quite right.

Q.—Are you talking from memory? A.—From memory.

Q.—What do you say? A.—I think both of these loans were considered as very temporary loans at the time.

Q.—But here is one in December, 1902, that was to be a very short matter because it was unauthorized investment, but you ran it along till April, 1903, and another one occurred, so that you were not pressing them very much to get rid of this unauthorized investment? A.—Not pressing them very hard, because we considered the security was very large and was ample, I cannot say we were pressing them very hard.

Q.—Do I understand you were pressing them to get rid of that or that you were willing to carry that along and take it out of the account at the end of the year to get it out of the way of the Insurance Department? A.—I intimated to them from time to time that it would be desirable to get it out of the way.

Q.—Was that in the early months of 1903 or was it during 1903 when you found the Department was getting a little more alert on this question? A.—It was practically from the beginning.

Q.—And at the end of April, 1903, you make another unauthorized investment to the same people? A.—Yes.

Q.—You cannot say anything more about it than that? A.—No, except they were to be paid off soon.

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Q.—They were getting just the ordinary rate of interest on that call loan? A.—Which was a pretty good one at that time.

Q.—What rate? A.—It was 6 per cent.; in all cases the rate was exactly what we were charging brokers, and the rate of interest on call loans has been very good for the last three or four years.

Q.—The rate of interest usually charged is put at the head of the account? A.—The rate here would only apply to the rate at the time the loan was made, and then whenever the rate was changed.—

Q.—During the currency of the loan? A.—We changed all of the loans at the same time so that there was no necessity for making a memorandum on each loan, we always knew what the rate of interest was at any particular time on these loans, they were never less than 5 per cent. and never more than 6, they were 5 or 5½ or 6, according as the banks went up and down.

Q.—You were charging Mr. Mackenzie & Mann just the same as you were charging outsiders? A.—Yes.

Q.—There was no difference in your statement of that? A.—No.

Q.—Did you lend any money to any other than Mackenzie & Mann on unauthorized securities? A.—Yes, I think we had a small loan on Dominion Coal.

Q.—To whom? A.—To Frank Sanderson.

Q.—Are there any others besides those two? A.—None that I remember of.

Q.—Who was F. Sanderson? A.—He was the Actuary of the Canada Life.

Q.—Nothing to do with Mackenzie & Mann? A.—Nothing whatever.

Q.—Outside of these transactions and the Sanderson one do you say you had not loans on unauthorized investments? A.—I have no recollection of doing so.

Q.—Have you had unauthorized investments presented to you from time to time with a request you should loan on them? A.—Almost every day brokers call us up and ask us if we can loan on such-and-such a security.

Q.—It would be a common occurrence for you to have requests from brokers about town asking you to lend on certain securities or whether you can lend on them? A.—Yes.

Q.—If you can lend on them you treat the transaction on its merits,

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if you cannot your invariable practice except in these two cases of Mackenzie & Mann and Sanderson is to tell them you cannot lend on it? A.—Yes.

Q.—And that is the end of it? A.—Yes.

Q.—It precludes all further discussion of the matter? A.—Yes.

Q.—How is it you treated Mackenzie & Mann any different from any other people? A.—That was about the beginning of our call loan experience.

Q.—Which was, the 1902? A.—Yes, I think up to that date we had not been making much call loans to any one.

Q.—Do I understand that prior to December, 1902, you have not done much business in call loans? A.—I think that is right.

Q.—After December, 1902, did you do a considerable business in call loans? A.—In the latter part of 1903 and 1904 and 1905 we have loaned a good deal on call loans.

Q.—But this one in 1902, it was not your first experience? A.—We would present you with a list of all our call loans. The books are here. We were working on that when we had to come here yesterday morning. I think those facts are about correct, that it was shortly after this we began. The rate of interest was attractive on call loans, we began making more of them.

Q.—You began investing considerably in that way? A.—Yes.

Q.—These were not your first transactions by any means in call loans? A.—Probably not.

Q.—And you had had to consider before that many times whether securities were within the Act or not? A.—I would not say many times on call loans, because while we may have made a few before this I do not think it is likely we made many call loans before this date.

Q.—In April, 1903, at that time Mr. Mann, Mr. Mackenzie were both on the Board of Directors? A.—Yes.

Q.—And also Mr. Pellatt who negotiated the loan? A.—Yes.

Q.—These three men were all on the Board of Directors for the Company? A.—Yes.

Q.—If these three men had not been on the Board of Directors of the Company would that call loan for \$11,000 have been made? A.—I scarcely think it would.

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Q.—I mean to say Mackenzie, Mann and Pellatt, Pellatt who negotiated it, and Mackenzie and Mann? A.—Yes.

Q.—So that you hardly think it would have been made at that time if these men had not been on the Board of Directors? A.—As far as being satisfied with the security is concerned we would have been amply satisfied with the security from any borrower.

Q.—If any person had come to you with the same security he would have been told that while the security was ample we cannot deal with you on that class of security, that would have been his answer? A.—Unless it was some person who was going to influence business for the company or do the company a favor in some way. Q.—Without going into the Sanderson matter now was Mr. Sanderson in that class? A.—No, I cannot say he was.

Q.—He was the Actuary of the Canada Life? A.—Yes.

Q.—Dealing with this one first, you say then these loans were made to MacKenzie & Mann and no doubt would not have been made, I think it is fair to say it, if they had not been directors of the company and interested as they were in it? A.—I am giving it due consideration, I think that is perhaps putting it too strong; I think we might possibly have made the loan to any good strong man who had applied for it if we thought by making the loan we would secure their friendship, co-operation and their interest in the company.

Q.—You think any person of the same financial strength would be able to get it on unauthorized security? A.—At that time, they would not today or any time within the last three years.

Q.—This transaction with William MacKenzie per Pellatt & Pellatt, call loan for \$11,000 seems to have been handled in precisely the same way as the other call loans? A.—Yes.

Q.—Let us see what that means, December 28th you credit to that call loan the \$11,000 of principal that you had loaned on April 29th, 1903? A.—Yes, and for which we received a cheque.

Q.—Then on January 25th you issued a cheque for \$11,418.03, and took the loan on again? A.—Yes.

Q.—In the meantime some interest had accrued and been paid, amounting to \$418.03? A.—Yes.

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Q.—So that when you were paid in December you were paid the principal on the 28th December and you were paid the interest up to the 31st December? A.—Yes.

Q.—And then you re-issued the loan as— A.—I am not sure whether that interest is up to the 31st, or is brought up to the 28th; we were paid it on the 31st.

Q.—You have nothing to show whether that interest was carried along during the time it was off your books or not? A.—A calculation would show, if this interest balances with the interest that had accrued.

Q.—If it can be checked off I would like to know whether the interest was carried forward—

Q.—Mr. Franks says to you, I believe, that in this year from 1903 to 1904 that it is quite possible that the interest was charged, although the loan was off the books of the company, but that that was not the case in the interval between December 26th and January 8th of the previous year? A.—Mr. Franks is in a position to know because he kept the books.

Q.—You are in a position to know that was a fact in this particular case? A.—I believe it was as Mr. Franks says so.

Q.—You know that anyway from the way the thing was done afterwards, your own securities included in with it, sent over to the bank, and so on, it must have been so? A.—Mr. Franks says it was not so the previous year.

Q.—Because none of your securities got into the transaction the previous year, at least we have not heard of it? A.—No.

Q.—March 3rd, \$11,418.03, that shows where that account was transferred to, and included with the old account to MacKenzie & Mann? A.—Yes, the two accounts were amalgamated when the new securities were given.

Q.—These two loans were then rolled into one, and Co., Limited, was added to the MacKenzie & Mann? A.—It is a different concern, it is a joint stock company.

Q.—Does that show the time when the "And Co., Limited"— A.—The reference to our books, yes.

Q.—It was then made a company transaction? A.—Yes.

Q.—The letter of hypothecation is dated March 3rd, 1904 (Part of Ex. 61), and that is signed by MacKenzie, Mann & Company, Limited, under the corporate seal of the Company,

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and that shows on that date it became a Company transaction, a company call loan? A.—Yes.

Q.—You say these securities were changed because of the objection raised by the Department? A.—Yes.

Q.—Besides these two there seems to have been another item included in the cheque when that account was closed out, and also when it was taken on again from the bank, would you let me see those two, that is the Dominion Coal Account and the Crows' Nest stock account? A.—There is the Dominion Coal.

Q.—And on the opposite page is the Crows' Nest? A.—Yes.

Q.—Taking the Crows' Nest Coal account first, that would show in March, 1903, you had purchased this Crows' Nest coal? A.—Yes.

Q.—That was not a loan? A.—No.

Q.—That was an out-and-out purchase of stock, and you bought it through Pellatt & Pellatt? A.—Yes, they were our brokers.

Q.—On March 16th, 1903, that purchase was made, was it? A.—Yes.

Q.—Did you pay for it at the time? A.—I think so.

Q.—\$15,162.62? A.—Yes, that is the cash record.

Q.—What is the entry below it, December 28th, 1903, MacKenzie & Mann, \$15,162.62, is that when that stock was taken out of your account at the end of the year? A.—Yes, as already set forth in Mr. Blackadar's report.

Q.—That is the Crows' Nest Coal Mr. Blackadar refers to in his report to the Department of February 24th? A.—Yes.

Q.—He says that 202 shares of Crows' Nest Coal, that is shown here? A.—Yes.

Q.—Of the par value of \$25 each at a cost of 300 $\frac{1}{4}$, per \$100 of stock? A.—Yes, making a total purchase price of \$15,162.62.

Q.—That was your absolute property? A.—Yes.

Q.—That was not as security hypothecated with you as against a loan? A.—No.

Q.—That was your own assets, bought with your funds, that was paid for in cash when it was purchased? A.—Yes.

Q.—Then it came back to your books on January 25th, 1904, just in the same way that the Mackenzie & Mann call loan did? A.—Yes.

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Q.—In the meantime no interest had been added, so that there is no change in the amount, it was still \$15,162.62? A.—Yes.

Q.—And then in March 29th, 1904, the account was closed out by credit from the Prudential Securities Company, Limited, of \$15,162.62? A.—Yes.

Q.—That was an item that was entered when the Prudential Securities Company, Limited, which had been formed in the meantime took over that Crows' Nest coal stock? A.—The ten directors really took it over and paid up the actual cash cost of the stock, and then it was carried by the Prudential Securities Company as a holding company formed for that purpose.

Q.—What was done about the interest on that account? A.—It was a dividend paying stock, we had received the dividends in the meantime, these are the dividends.

Q.—\$126.25 every quarter that you received as dividends? A.—Yes.

Q.—And you simply credited those dividends—as answering the interest on the price of the stock? A.—Yes.

Q.—The Dominion coal account is on the next page; does that page show all your investments in Dominion coal from 1902 to date, where you become the absolute purchasers? A.—Yes.

Q.—And it only includes such Dominion coal stock as you got as the owners, not such as you got as pledges? A.—Just what we got as owners.

Q.—It commences with purchase of Dominion coal stock in 1902 on October 20th, bought through Pellatt & Pellatt, 25 shares apparently \$23,143.75? (No answer.)

Q.—The result was without going into the details of that transaction, that on December 28th, 1903, you had how many? A.—1825 shares of the Dominion coal stock—

Q.—And that was taken out of your books by a cash payment made on December 28th of \$230,903.86? A.—Yes.

Q.—That being part of this same cheque that has been credited both in the McKenzie & Mann account and the William McKenzie account, Crows' Nest coal account and Dominion coal? A.—Yes, as explained by Mr. Blackadar.

Q.—Those items all added together make up a total of \$386,443.51? A.—Yes.

Q.—And that cheque was made by McKenzie & Mann? A.—Yes.

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Q.—And it was deposited by you with your Bank—what Bank? A.—It would likely be the Traders.

Q.—It was issued on what Bank? A.—I do not know that.

Q.—Did you not arrange that matter? A.—I do not think I did.

Q.—At the end of the year 1902 had you any Dominion coal? A.—Yes.

Q.—How much Dominion coal had you at the end of 1902? A.—700 shares.

Q.—And did you carry that in your books over the end of the previous year? A.—No.

Q.—How was that dealt with? A.—Dealt with in a similar way.

Q.—To the way it was done at the end of 1903? A.—Yes, something similar. It was sold to Pellatt & Pellatt at the original cost.

Q.—And was taken back again? A.—Yes.

Q.—At what? A.—The same price.

Q.—That is it was sold to Pellatt & Pellatt on the 31st December, 1902, and was re-purchased by you, so the books would indicate, on the 2nd January, 1903? A.—Yes.

Q.—That was just a mere taking it out of the account? A.—Yes, a nominal sale.

Q.—For \$91,110.11? A.—Yes.

Q.—There is no similar entry with respect to Crows Nest coal because that was not owned at the end of the previous year? A.—No.

Q.—Besides the Crows Nest coal and the Dominion coal stock are there any other stocks that you have owned that have been taken out of the account and put in again, whether at the end of the year or any other time in that same way? A.—No, none.

Q.—Those two stocks, Dominion coal at the end of 1902 and also at the end of 1903, and the Crows Nest coal at the end of 1903 were the only stocks you owned outright that had ever been dealt with that way. A.—Yes.

Q.—And as to the securities held against loans were there any except to McKenzie & Mann and the William McKenzie loan that were closed but at the end of any year and continued again the beginning of the next year? A.—The loan to Mr. Sanderson was taken up by him with his own cheque and a new loan made—

Q.—Other than McKenzie & Mann and Sanderson call loans have there been any securities held by you against loans, any securities pledged with you that were not authorized by the Act that had been taken out of your books

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and put on again in that way? A.—No.

Q.—That is said without any mental reservation whatever? A.—I will just have my memory refreshed; I cannot remember of any.

MR. McLAUGHLIN: We will have the list of call loans made.

MR. TILLEY: Q.—We will leave that until we get the complete list, and then probably you will be able to be sure that we have all that. In any way put in that category? A.—Yes, I will ascertain that exactly.

Q.—This report of Mr. Blackadar's states, "That in the cash book and blotter there appeared as receipts under date of December 28th, 1903, the four items above mentioned (Reads)"—where is that minute of the Executive Committee? A.—There will be a copy of it amongst the minutes we furnished.

Q.—Let us have the original of it; the date will be December 28th, 1903, and it was a meeting of the Finance Committee. There is this entry in the minutes of the Finance Committee of a meeting held December 29th, 1903, at page 17: "Present, Col. Pellatt, in the chair; Messrs. S. G. Beatty, Col. James Mason and the Managing Director. Sale of 1800 shares of Dominion coal at 126½, and 202 shares of Crows Nest coal at 300¼ to McKenzie Mann & Company with a guarantee from this Company against loss in the transaction was approved," and the marginal entry is "Dominion Coal, Crows Nest coal;" is there any record of the arrangement between the Company and McKenzie, Mann & Company except what that minute says and what the entries in the books show that you have shown to me? A.—No, I believe not.

Q.—There was no written agreement with the Company to take the stock back? A.—No.

Q.—That minute of the transaction is hardly an accurate minute of what the arrangement was? A.—It was merely a nominal sale.

Q.—It was not a sale with a guarantee against loss, was it? A.—Yes, just as put there.

Q.—You think it was a sale with a guarantee against loss, so that you think this is a fair record of what the parties intended should be done? A.—Yes.

Q.—If the stock went up before the end of the year, if you could imagine it going up from the price it was then

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or to higher than you had paid for it, McKenzie & Mann could have told you we will keep it, we will release you from your guarantee against loss? A.—There was so much difference between the price at that time——

Q.—That was an impossibility; that only indicates that is not a fair statement of what the arrangement was? A.—That side of it was not considered.

Q.—It was considered in this way, this record was placed on the books for the purpose of giving color to the transaction, was it not? A.—Perhaps you are placing a different construction on that from what I am.

Q.—It seems to me to be perfectly simple: "The sale of 1,800 shares of Dominion coal at 126½, and 202 shares of Crow's Nest coal at 300¼ to MacKenzie, Mann & Company with a guarantee from this Company against loss in the transaction was approved," that seems to be perfectly plain transaction, if you read that and know nothing more, does it not? A.—My understanding of that minute was that on demand we would have to re-purchase it from them at the same price.

Q.—Your understanding was that on demand you must re-purchase the stock from MacKenzie, Mann & Company at the same price? A.—Yes.

Q.—And that in the meantime the stock was their's and not yours? A. Yes, the transaction did not mean—

Q.—That was it? A.—As I have said before it was only a nominal sale.

Q.—And this was a colorable resolution? A.—We had not looked at it as so at the time.

Q.—Was not that resolution put on the books intentionally for the purpose of making it have a good appearance? A.—We did not intend making it appear as anything only a nominal sale.

Q.—Certainly not a real sale? A.—No, I could not say it was a real sale.

Q.—The securities were still yours? A.—In reality.

Q.—And continued to be yours until it came back into your possession again, that is right? A.—Yes.

Q.—And you paid the Bank the interest on the money that was advanced to be credited to your account in the Traders' Bank? A.—Yes.

Q.—And you charged MacKenzie & Mann interest on their call loans in the interval? A.—Yes, I believe so.

Q.—That meeting was held on the 28th December, 1903, do you know whether that was a regular meeting—

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How often did that committee meet? A.—Just whenever they were called together, generally about once a week. With regard to that coal stock at that time we considered ourselves as Directors liable for it, and we felt as far as the Company was concerned they had to realize cash for it.

Q.—Was that discussed between you and the other Directors? A.—It was about that time.

Q.—When did you say, about that time, after the Insurance Department Auditor arrived? A.—No, before the end of the year.

Q.—Before the end of which year, 1903? A.—Yes.

Q.—What about at the end of 1902? A.—At the end of 1902 we were in hopes the value would come again to its original cost.

Q.—Had it been down a whole year? A.—In 1902?

Q.—I mean from the time you bought it in 1902? A.—I cannot say about that. It had been a short time before we bought it, it had been up as high as pretty near 150.

Q.—We will take that up later, the way the stock depreciated; but in 1902 it was then lower than you had paid for it, at the end of 1902? A.—Yes.

Q.—You took it out of the book and brought it back again, so that at the end of 1902 there was this loss on the stock then if it had been realized? A.—Yes.

Q.—Had the Directors at that time considered they were responsible? A.—I am not sure it had been discussed at that time as to the responsibility, I think it is quite likely it was before the end of the year.

Q.—Was that the only stock besides Crow's Nest stock you had in that condition where there was a question as to the liability of the Directors? A.—The only one that showed a liability.

Q.—Then the other stocks that you own, some of them may have been unauthorized? A.—Yes, technically.

Q.—Technically— A.—I mean like the C. P. R., we had some stock of the C. P. R., but at the time we bought it we overlooked the fact entirely that it did not come technically within the Act, considered it good security, but when the Department called our attention to it we sold it at a profit.

Q.—When did the Department call your attention to it? A.—I would not be sure of that.

Q.—Can you tell from the C. P. R. account? A.—I think it was quite likely in 1903 when they called our at-

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tention to these stocks that we began considering more carefully just what did come within the Act.

Q.—So that it was then the result of the Superintendent of Insurance inspection that brought that to your attention? A.—Yes, that brought it forcibly to our attention.

Q.—Or that made it the subject of discussion, would you go that far? A.—No, I think it was discussed before, I am satisfied it was discussed to a certain extent before the Department called our attention to this Crow's Nest and Dominion coal.

Q.—Can you say what it was that made it the subject of discussion? A.—Once or twice I think when we were considering securities such as the C. P. R., some of the Directors made the remark that if these should result in any loss the Directors were personally responsible for it and that they were unnecessarily running the risk in that way, if the stocks went up the Company got the profit and if they went down the Directors would have to stand the loss personally, and it was their only anxiety to make money for the Company that ever induced them to consider any of these securities at all.

Q.—So that it had been the subject of discussion amongst you all these securities that you were investing in being unauthorized that you would be responsible for any loss that was incurred? A.—Yes.

Q.—And if there was a gain it would be the Company's gain, and if there was a loss it would be the Directors' loss? A.—Yes.

Q.—And still you went on investing in these securities? A.—Yes.

Q.—Knowing that if there was a loss practically the Company would be looking to the personal liability of the Directors? A.—As a matter of fact we were over optimistic at the time, we thought there would not be any loss, that the risk was practically nil in any of these securities we purchased.

Q.—That resolution having been passed the coal stock, the Crow's Nest stock and the securities held against the MacKenzie & Mann call loan and the William MacKenzie call loan were all rolled into one transaction? A.—Yes.

Q.—And a cheque for the amount of all these transactions as they appeared in your books at the time, part of them being your securities, and part securities merely pledged with

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you was credited to your account in the Traders' Bank? A.—That is my recollection.

Q.—And then the beginning of the following year, January 25th, I think it was, you gave a cheque back for the amount that the Bank had advanced with interest on the amount while the Bank was out of the money, while it was credited to your account? A.—Yes, I believe that is right.

Q.—And you charged MacKenzie & Mann and William MacKenzie interest in the meantime? A.—Yes.

Q.—Was there any resolution in this book regarding a nominal re-purchase from MacKenzie & Mann of that Dominion Coal and Crow's Nest stock at the beginning of the year? A.—I am not sure about that, if there is it would be sometime in the January minutes.

Q.—In the minutes of the Finance Committee, January 26th, 1904, is this entry: "The purchase of 202 shares of Crow's Nest Railway at about 300½, amounting to \$15,162.62, and 1,825 shares of Dominion coal at about 126½, amounting to \$230,903.86 was approved;" so that in your minutes you thought it was advisable to put in a record of a sale at the end of December and a re-purchase in the beginning of January? A.—Yes.

Q.—When that was done and the securities were taken out of the books were the leaves of the book left where they were in the book or were they taken out, do you know? A.—I do not know; we have just the two books, that is the current—

Q.—Are you referring to the two books you have before you? A.—Yes, one is the current transactions, that is current call loans and securities held by the Company, and the other is the transfer file, where after a call loan is paid off, or after an investment matures and is paid off it is put into the permanent transfer file for permanent keeping. It would be in either one or the other; I could not say which one it would be in at the time.

Q.—That is, your system of keeping this loose leaf ledger is, when the transaction that is recorded on a page is completed to take out the sheet and transfer it to the permanent filing book? A.—Yes.

Q.—And in that way the current book is a book containing sheets relating exclusively to matters that are open and not closed? A.—Yes.

Q.—And then the other file that you have, the larger one, is a book

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containing a record of transactions that are closed and of no importance at the present time? A.—Yes, except it is just the other way, the small book is the permanent file and the large one is the current file, because our current transactions are more than our closed ones. This small book is the permanent file.

Q.—Did you give any instructions about sheets regarding this Dominion Coal, Crows' Nest, and the Mackenzie & Mann two loans, as to where they should be? A.—No.

Q.—You do not know where they were as a fact? A.—No.

Q.—Who would be able to tell us that? A.—Mr. Franks.

Q.—Mr. Franks is the person having charge of those two books? A.—Yes.

Q.—(Reads from report of Mr. Blackadar of February 24th, 1904, page 2), "This sum received from Mackenzie & Mann, etc., (reads to the words 16th instant)"—that is a correct statement? A.—Yes; as soon as Mr. Blackadar came and made inquiries about these we showed him every document we had in connection with these and the whole transaction just as it happened.

Q.—You told him you were still in reality the owner of that stock, although it had been nominally sold to Mackenzie & Mann? A.—Yes.

Q.—(Reads from Mr. Blackadar's report): "The call loans, etc."—what he means by that is you continued to charge interest and they were still call loans of yours? A.—Yes.

Q.—(Reads from top of page 3 of Mr. Blackadar's report): "The undersigned has not been able to ascertain," etc.—that is you regarded that as a good investment so far as merit? A.—Yes. All these matters were looked at this way, that the Company must ultimately get every dollar that was represented in those securities, because the call loans was absolutely secured and the other we regarded the Directors as personally responsible for, and there was a number of them pretty strong men financially and able to assume the responsibility.

Q.—You do not suggest it as any justification for loaning on an improper security that you thought some of your members on your Board were men of financial standing, do you? A.—No, that was not with regard to the call loans; the call loans we considered the borrowers perfectly good for them.

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Q.—You do not justify, surely, the purchase of very fluctuating stock not authorized by the Act as being a justifiable transaction merely because some of the Board were men of substance? A.—I am not trying to justify it, I am just saying that this was how we looked at it at the end of the year when we were putting through these nominal sales.

Q.—Was that the way you looked at it at the time you entered into the transaction? A.—When we bought the stock?

Q.—Yes? A.—No, when we bought the stock we bought it just with one idea of making money for the Company.

Q.—At the time you purchased the stock you say you were not thinking of that phase of it at all, but at the end of the year, when you had to make some shift to get around the disclosure to the Department at Ottawa you justified it mentally in that way? A.—The fact that the security had gone down in the meantime led us to consider the matter more seriously.

Q.—And from a different light? A.—Yes, and our financial responsibility in connection therewith.

Q.—Do you mean to put it now that at the end of that year 1903 you felt that having regard to the fact that some of your Board were persons of substance that that in any sense justified what you did? A.—It may not have justified it, but that was our reason for doing it in that way.

Q.—Reason for doing it in what way? A.—Of making a nominal sale of these rather than carry them in our assets. A Life Insurance Company is a very sensitive institution and if we showed these securities as showing a large loss it might do the Company a great deal of injury, and the work of the agents, making it harder for them to secure business, and consequently more expensive, and we looked upon it as merely deferring the time when this money would have to be paid into the coffers of the Company.

Q.—That is very well to put it through in that way so as to keep it out of the annual returns to prevent this sensitive Company from sustaining some large expenses in the way of carrying on its business, but in the meantime you had been thinking about the Directors own position too,

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and that they were personally liable?
A.—Yes.

Q.—I suppose you did not want to hurry the day when they would have to settle for it? A.—There was not really time at the end of the year when we began to consider the matter closely.

Q.—Was it not as much with regard to the Directors own position as from any idea of the Company's welfare in connection with the matter that you made the transaction the way you did? A.—No, in my own mind I was considering the Company more than the Directors.

Q.—You knew this, that the Directors would have to stand the loss? A.—Yes.

Q.—And that was discussed between you and the other Directors? A.—Yes.

Q.—And the other Directors were also of the same opinion, or did they dispute your proposition? A.—No, I do not think they did, they felt by that time that it was a matter of personal responsibility.

Q.—They had come to that conclusion I suppose some time before the end of the year? A.—After we began giving the matter serious consideration.

Q.—When did you commence to give the matter serious consideration? A.—Probably about the month of December.

Q.—During the whole of the month? A.—About First of December.

Q.—So that from the First of December on the Directors were seriously considering the position that they were in, and they all realized that they were personally liable? A.—I could not say all, those that I brought the matter before and discussed it with; I cannot remember just what members they were, but I remember discussing it with several of the Directors.

Q. Who? A.—I think it would be principally the members of the Finance Committee in all probability.

Q.—Who would they be at that time, were they Col. Pellatt, Col. Mason, S. G. Beatty and yourself, your brother and D. D. Mann? A.—Yes.

Q.—So that you would be very readily able to talk to Mr. Pellatt and Mr. Mann and so on about that transaction? A.—Yes.

Q.—Mr. Beatty was aware of it at the time it was put through? A.—

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Yes, I think he was present at that meeting.

Q.—And Col. Mason? A.—I think so.

Q.—And both yourself and your brother? A.—Yes.

Q.—That would be pretty well canvassed between you; but as to the rest of the Directors of the Company you do not know whether you discussed it much with them or not? A.—I could not say positively.

Q.—But you were all of the opinion that the persons who ratified that transaction were responsible for any loss? A.—Yes.

Q.—And being of that opinion did you in the month of December in any way attempt to raise money to start to settle that loss, get rid of the security? A.—I cannot say I did, I thought it would be too great an undertaking to do in such a short time, as December is our busiest month, when the general matters of the Company require a great deal of attention.

Q.—What is your recollection now, can you say whether any effort was made in that direction at all? A.—I do not think there was.

Q.—By any of the parties? A.—No.

Q.—Were Mackenzie & Mann called on in that month of December to take up their call loans? A.—It is quite likely they were.

Q.—Can you say anything more definitely one way or the other than that, anything might be quite likely, if you were all anxious about it? A.—I could not just say what particular dates—which year do you refer to?

Q.—I am referring to that year when this call loan and the Mackenzie matter. A.—In December they did actually take up their loan and gave us their own cheque for it which was deposited in our Bank and cashed in the regular way.

Q.—And then cashed back again when? A.—January 25th.

Q.—You do not say that was in any way paying their call loan, that is a suggestion from Mr. Franks, you do not claim that? A.—Yes I do.

Q.—You claim that was a bona fide payment off of that call loan by Mackenzie & Mann? A.—They gave us their cheque.

Q.—I would like yes or no to that—do you claim that is a bona fide payment of that call loan? A.—In this case it was, I think so.

Q.—That is to say the whole cheque they gave you was for \$300,000? A.—No, no, not in December, 1903.

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Q.—Yes? A.—I did not understand it that way, I thought it was a cheque that was for their own call loan.

Q.—Oh no, that is the year that the cheque for \$300,000 and over was supposed to have been paid, cashed through Mackenzie & Mann, and then January 25th it was cashed out to them again and the coal and the Crows Nest stock taken back, but you do not say that was a bona fide payment off of that call loan? A.—It is largely a matter of opinion, I am still—

Q.—Have you not an opinion at all on your part, I want your idea of it? A.—With regard to the coal part of it—

Q.—I did not ask you anything about the coal part of it, I asked you about the call loans on which you continued to charge that interest, do you say that was a bona fide payment, and you continued to charge them interest from that date on? A.—We charged them interest afterwards when it came back again.

Q.—You charged them interest, and you paid the interest to the Bank on that \$326,000? A.—I am not sure whether we charged interest that year or not.

MR. FRANK stated: We did not pay the Traders Bank a cent of interest.

MR. TILLEY: Q.—Then who paid interest? A.—There would be no interest accruing, the loan was paid off to the Bank by cheque, because as I understand it at that date we deposited the cheque in the regular way.

Q.—On what date? A.—December 28th

Q.—That is the loan to you, that was when you deposited Mackenzie & Mann's cheque? A.—Yes.

Q.—When you gave back that \$326,000 did that money go back to the Bank to recuperate it for the money that it had advanced? A.—The Bank did not advance that money.

Q.—Have you the cash book for January, 1904? A.—I am speaking all this time of the previous year.

Q.—The other year was an entirely distinct matter, in that case Mackenzie & Mann, as you say now, as far as we know gave their cheque for those loans, and got a new loan the beginning of the following year? A.—Yes.

Q.—But at the end of 1903 it was not in any sense a similar transaction to that, at the end of 1903 you rolled the whole four transactions into one? A.—Yes.

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Q.—That is Dominon coal stock, Crows Nest stock, William Mackenzie loan and the Mackenzie & Mann loan?

A.—Yes.

Q.—And you put them all into one? A.—Yes.

Q.—And one cheque was given the Manufacturers Life Insurance Company for \$386,443.51? A.—Yes.

Q.—That cheque is split up amongst the four accounts, in each case wiping out the particular account? A.—Yes.

Q.—In January, 1904, was that money not chequed out again from the Manufacturers' Life "Totalling in the sundry payments \$386,443.51, just the same amount"—that is what Mr. Blackadar said in his report, and I suppose that report has been studied carefully? A.—I have not studied it recently.

Q.—The next item is, "\$1,482.26," was that the interest on the \$386,000 odd dollars or not? A.—I am anxious to give you the exact facts.

Q.—I am willing Mr. Franks should assist you.

JUDGE MacTAVISH: Is the cash book here? A.—No.

MR. TILLEY: We will have that here in the morning.

JUDGE MacTAVISH: Will that show.

MR. TILLEY: It ought to show.

MR. McLAUGHLIN: I have no doubt those items are correct.

MR. TILLEY: You would not on that state of facts, if that is so, you would not in any way contend that that was a payment of the call loan, a bona fide payment? A.—Not if it were done in that way; my intention was it would be done just in the same way as the previous year, that they would actually pay off the call loan.

Q.—I am taking the transaction just as we found out? A.—Just as it was carried out.

Q.—It only probably serves to show that the transaction the year before was not a bona fide transaction? A.—It was done with the expectation they would get the loan back again.

Q.—More than an expectation? A.—We were not under any legal obligation to do it.

Q.—There was not any possible chance but what it would be done? A.—Yes, there was a very great possibility if a single director on our Board had objected to it, made any trouble at all about the matter, it

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would not have been made back to them again.

Q.—Back to whom? A.—MacKenzie & Mann.

Q.—Which one? A.—The loan.

Q.—That is in the preceding year? A.—Yes.

Q.—But in the year 1903 and 1904 the transactions were also involved there? A.—They certainly would not have got it back if any director had objected.

Q.—Of course it was not brought before the directors? A.—No.

Q.—You have told me, have you, all that there is to be said about the purchase of that stock by you from the different persons and the chain of title from Mr. Gooderham? A.—I think so.

Q.—There is one item of 100 shares that still stands in your name in trust, who is that for? A.—Dr. Nattress.

Q.—Why is that in your name in trust? A.—It is collateral security to some loan.

Q.—Have you made him a loan on that, the company? A.—Yes, not on the stock, I think it is a real estate loan, and we took the stock as additional collateral security.

Q.—At the time the loan was made or afterwards? A.—I am not sure of that.

Q.—I would like to see that? A.—We have not Dr. Nattress' loan here.

Q.—Mr. Franks says that the old Temperance & General had made a loan to that particular shareholder, secured by a mortgage on his real estate with collateral his 100 shares of stock or whatever it was in the company? A.—Yes.

Q.—And when the companies were amalgamated the new stock was issued to him direct and not held by the company? A.—Yes.

Q.—And later on that was discovered and his stock was transferred to you in trust to hold as collateral to the mortgage on his real estate? A.—Yes.

Q.—And it still stands in that position? A.—Yes.

Q.—It was not any loan to him on the stock itself in the way of a separate transaction of that nature? A.—No.

Q.—The only case you have had where money has been loaned in that way on the stock of the company is the case of MacKenzie & Mann you have referred to, their 4,000 shares? A.—Yes.

Q.—Then there is a case which we will refer to later—1,000 were transferred to you in trust—just to incorporate that—transferred to you and to some other officer of the company in trust from Mr. Pellatt? A.—Yes.

Q.—Other than those cases there have been no cases where stock was held for the benefit of the Manufacturers' Life Insurance Company? A.—None that I recollect.

Q.—Or where the company has any interest in it by way of pledge or security or otherwise? A.—Yes.

Q.—And Mr. McLaughlin asked me to ask you whether there is any at the present time at all except 100 shares which is held as collateral security to the real estate loan which we have referred to? A.—None whatever.

Q.—That finishes what I had to ask you about the shareholders, and I was going to ask you now as to the Committees you have appointed from time to time; what Committees have you in connection with the company, you have the Board of Directors, you have spoken about, and given the personnel of that from time to time? A.—Yes, and then we have the Executive Committee.

Q.—When was that Committee appointed, in 1901, was it not? A.—Yes, shortly after amalgamation.

Q.—I believe that Committee was referred to in by-laws of the company? A.—Yes.

Q.—And you have a printed copy of the by-laws? A.—Yes.

Q.—Is there just the set of by-laws that is there printed or have you passed any since? A.—I think that includes all of our by-laws.

Q.—I will put in my copy of that list of by-laws, which shows the duties of the Executive Committee. (Reads by-laws numbers 10, 11 and 12.)

By-laws marked as Exhibit 62.

Q.—Who have been the members of the Executive from time to time since it was formed, since the formation of the company I suppose in reality? A.—The first Executive for 1901 were as follows: Hon. G. W. Ross, Lieutenant-Colonel Pellatt, Lloyd Harris, E. R. Wood, R. L. Patterson, J. F. Junkin, S. G. Beatty, James Mason, and Robert Junkin.

Q.—Those directors were re-appointed in 1902, and D. D. Mann was added to the Committee? A.—Yes.

Q.—And those directors all continued through 1903? A.—Yes.

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Q.—And then in 1904 E. R. Wood dropped out of the Committee? A.—Yes.

Q.—He then ceased to be a director? A.—Yes.

Q.—The following were added to the Executive Committee in that year: E. J. Lennox, R. J. McLaughlin, D. B. Hanna, C. C. Dalton; the 1904 Committee continued through 1905 and also 1906, and in the last year, 1906, that is the present year, William Mackenzie has been added to the Committee? A.—Yes.

Q.—So that that gave the Executive Committee and their duties still as defined by that by-law that we read? A.—Yes.

Q.—Practically they took the place of the Board of Directors in all the current business of the company? A.—Yes.

Q.—What was the object of that? A.—The Board is a very large one, and pretty well scattered, they only meet once a month.

Q.—The Executive Committee meets very often? A.—Weekly.

Q.—And are all the persons on that Executive Committee Toronto people? A.—Toronto or immediate vicinity.

Q.—What do you mean? A.—The furthest out is Mr. Harris of Brantford, and he is in Toronto a great deal.

Q.—The Agency Committee, what is that? A.—The Agency Committee looks after the engaging and discharging of agents.

Q.—Was that a Committee that was appointed as soon as the company came into existence? A.—No, it was appointed in 1902.

Q.—What was the occasion of appointing it? A.—The division of labor, instead of referring every agency matter to the full Board all contracts of sub-agents, for instance, and that kind of thing, there is a great deal of detail about it, it was thought that could be better handled by a smaller Committee.

Q.—Were these Toronto people except Lloyd Harris? A.—Yes.

Q.—Who have been members of that since it was appointed? A.—Lloyd Harris, Lieutenant Colonel James Mason, R. L. Patterson, Robert Junkin and J. F. Junkin during the year 1902 and 1903; and in 1904, Mr. S. G. Beatty was added. The Committee continued the same during 1905, and in 1906 Colonel Mason dropped off and R. J. McLaughlin was added.

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Q.—That is the Committee that now does the work of the Agency Committee? A.—Yes.

Q.—From 1902 you have always had the Agency Committee? A.—Yes.

Q.—And are his duties defined any place in the by-laws? A.—I think not in the by-laws.

Q.—There is no resolution or by-law that definitely fixes the duties of that Committee? A.—No.

Q.—But in a general way there is just what you said, approving of contract with? A.—With agents and sub-agents, and all their minutes are read at the meeting of the Board.

Q.—All intervening minutes? A.—Yes.

Q.—And the minutes of the meeting of this agency committee and the executive committee are all in the minute book? A.—When I say the Board I should have said the executive committee or Board, whichever happens to meet first.

Q.—And then are the executive committee minutes read when the Board of Directors meet? A.—No, the book is laid on the table, but the minutes are not read except the minutes of the last executive meeting.

Q.—Besides the agency committee and the executive committee what other committees have you had? A.—We have had the Finance Committee.

Q.—When was it appointed? A.—In 1902.

Q.—Is there any resolution fixing its duties? A.—At the minutes of the executive committee, November 17th, 1902.

Q.—Let me have that: "The sale of stocks at present held by the company was discussed, and it was moved by Mr. E. J. Lennox and seconded by Mr. A. J. Wilkes, that Lt.-Col. Pellatt, Lt.-Col. Mason and Mr. S. G. Beatty, with the Managing Director (or Assistant Manager in his absence) be the Finance Committee with power to approve the sale of stocks and bonds owned, or which may be owned by the company, and to approve the purchase of all stocks and bonds by the company." That resolution is on page 189 of the Minutes, and was passed on November 17th, 1902—that almost follows a resolution to purchase 200 shares of Dominion Coal at 128 7-8, that was approving of the purchase on November 10th; 100 shares at 126 on November 13th, and 100 shares at 125½ on November 14th; those purchases were confirmed; was it on account of this purchasing of Dominion Coal and other stocks that this fin-

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ance committee was appointed? A.—I could not say just how it originated, the idea was it would be better to have a small committee to consider investments in detail rather than bring them up at a large board where there was so much general business, and where there might not be time to consider them at length and as carefully as it was thought to be necessary.

Q.—Was it intended that applications for loans on real estate should be made to this committee? A.—No, the minute does not say so. I do not remember just what the practice was at that time, whether they were as a matter of fact submitted to the Finance Committee or whether it was only on stocks and bonds.

Q.—How long did that committee last? A.—Until the end of 1903.

Q.—And during 1903 was any other person added to the committee? A.—D. D. Mann.

Q.—So that it continued through 1902 from November 17th with the names you mentioned, and then D. D. Mann was added in 1903, and then it went on until the end of 1903, and then what, come to a natural death, or was it rescinded? A.—It was a committee that required re-appointment each year, and there was simply nothing done.

Q.—Nothing doing? A.—It was thought better to refer all investments to the full board again.

Q.—So that these parties lost the position of honor they held for the year or two or three months; there was no question that that committee was appointed specially to deal with the buying and selling of stocks? A.—And bonds.

Adjourned at 4.30 to 10.30 a.m. to-morrow.

SIXTEENTH DAY.

MORNING SESSION.

Toronto, April 27th, 1906.

(Examination of Mr. Junkin, continued.)

MR. TILLEY: Mr. Junkin, you were to give me the names of the different committees and the members of each Committee in connection with your company. Were there any Committees other than the ones you mentioned? The Executive, The Finance,

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and the Agency Committee? A.—Yes, sir, a small Committee appointed annually. There was no other standing Committees.

Q.—What other small Committee was appointed? A.—There was a small Committee appointed each year.

Q.—That was a Committee appointed towards the end of each year to arrange the salaries for the coming year? A.—Yes sir.

Q.—Was that a Committee which the same persons acted on each year or would you name the persons? A.—They were named each year. Named by the Executive Committee.

Q.—Other than those were there any other Committees? A.—No.

Q.—I think that you said there were some Committees in Quebec? A.—Yes, there were local Boards, one in the City of Quebec and one in Montreal, part of the time.

Q.—What were their duties? A.—It was more advisory than anything else. We would call them together at irregular intervals say about once a quarter and lay before them the statements generally the same general statements that were laid before the Directors. And if there were any applications for loans or investments from their locality they were either called together as a Board or individual members of that Board would be written to and asked about it.

Q.—That is, in the case of investments in the locality where these Committees met you would probably communicate with the members of the Committee or individually, would you? A.—Yes sir, very often.

Q.—And get their opinion on the particular loan that was under investigation? A.—Yes sir.

Q.—Were these Committees called together from the Head Office here or by the local representative? A.—By the Head Office. We would write the local representative and tell him when to call the meeting.

Q.—You had a local representative at Quebec and Montreal? A.—Yes sir.

Q.—He would call the Committee? A.—Yes sir.

Q.—Would you name the time or how? A.—I would.

Q.—Are minutes of that Committee kept? A.—Yes sir at the local office.

Q.—Were those kept in the Head Office? A.—No, they kept the minutes of their own meetings.

Q.—I suppose those minutes can be obtained for us to look over to see if

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there is anything in them that we would care to bring out? A.—Yes sir.

Q.—Probably it would be well to have the names of these Committees. Would you just give the names and how long the Committees have been in existence? A.—The Quebec Local Reference Board was established in 1901 with the following local Directors:—

“1901. Quebec Local Reference Board.

L. P. Pelletier,

V. W. LaRue,

A. A. Letellier,

C. Lebreque,

C. H. Carrier.

Added 1902.

L. P. Sirois.

Honorary Director for Natal.

Sir William Arbuckle, appointed at Board of Directors' Meeting, June 18th, 1904.”

Q.—Does that complete your Committee? A.—The Montreal Board does not seem to be given here. I suppose the reason is that they were all Directors, being on the Board in chief the Head Office Board. The Committee consisted of these Directors living at Montreal and vicinity. They were appointed in order to keep them in touch with the business as they were not able, many of them, to come to Toronto often.

Q.—That completes all the Committees of every nature that you have in connection with the Manufacturers' Life Insurance Company? A.—Yes sir.

Q.—Mr. McLaughlin points out that there are Committees appointed from time to time for special matters, that is not what I want? A.—That is as I understood it.

Q.—What I wanted was the Committees that had any connection with the organization and the general management of the Company's business, that is any being of a permanent nature, not those simply appointed for special matters? A.—Yes sir.

Q.—Well, Mr. Junkin, some of the information that you were to get has not been collected? A.—Yes sir, Mr. Franks is working on that now.

Q.—Just one or two questions about the policyholders vote. Have you ever had any request from any policyholder for a list of your policyholders in Toronto? A.—No sir.

Q.—Or at any other place? A.—No.

Q.—Is there any rule about the supplying of any such information? A.—No, the question has never come up.

Q.—Is there any such information

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given, that is available to policyholders without the necessity of them making any special request? A.—No.

Q.—That would not be given except for the use of some special cases. You would not have any list of policyholders? A.—No list at all.

Q.—Supposing a policyholder came to you for a list of the policyholders entitled to vote? A.—If I thought he was really in earnest I would give the information to him, but if not, if he was the agent of a rival company I would probably tell him it was not available.

Q.—There is nothing that compels you to give that information to anyone that asks for it? A.—No.

Q.—In your view of the law you would be quite justified in that case not to give him that information? A.—Yes sir.

Q.—I suppose that is information that is not often submitted to a Board meeting is it? A.—No, only as the applications come in.

Q.—Application for insurance for a certain amount? A.—Yes sir.

Q.—What amount? \$5,000 and over? A.—Yes sir.

Q.—So that there would be many there that would have a right to vote that the Board would know nothing about? A.—That the Board would know nothing about.

Q.—Such information would have to be got from you by some special arrangement? A.—Yes sir.

Q.—And if you thought the application was bona fide? A.—Yes if I thought it was bona fide.

Q.—What do you mean by bona fide? A.—If I thought it was for the purpose of voting I would give him all the information he wanted.

Q.—If you wanted the vote the other way? A.—I would perhaps think it over.

Q.—It would be entirely in your own hands? A.—Yes sir.

Q.—There will be no way in which the policyholders can get together at the Annual Meeting? A.—I know of no such way.

Q.—What you say is it might be used by rival companies? A.—I was not referring to the vote, I was referring to the digging out process.

Q.—You suggest that if there was any such machinery provided to disclose such information it might be used improperly by agents for other companies. Instead of being used for the bona fide purpose it might be used for an improper purpose? A.—Very easily.

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Q.—The matter has never come to a test in any company in which you are associated? A.—No.

Q.—The policyholder must come and vote for himself and there is no way in which he can find out other members that are in the common interest with himself? A.—No.

Q.—Do you know why policyholders are put in a different position in regard to voting by proxy from shareholders? A.—No I do not.

Q.—Has that been considered by your company? A.—It has never been discussed. We followed the old charters in that. The matter of change in that regard was not discussed at all, it has never been suggested.

Q.—Do you know whether the provision in your Act is the common provision or is it exceptional to your company? A.—I think it is common.

Q.—You think that it is common in most of the stock-companies? A.—Yes sir.

Q.—The policyholders must come and vote personally? A.—I think so. In some stock-companies of course policyholders have no vote at all.

Q.—When they have a vote they must come and attend personally and vote? A.—Yes sir.

Q.—And there is no provision for supplying information to the policyholders as to what persons are entitled to vote? A.—None that I know of.

MR. SHEPLEY: Now Mr. Junkin I want to ask you a question or two with regard to the method that was taken to substitute the authorized securities for the unauthorized securities in the case of the MacKenzie & Mann loan. You had two call loans as you have already told us? A.—Yes sir.

Q.—One was a large sum of money and represented the sum originally raised by the company's stock. A.—The company's stock and the \$100,000 of the Inverness Railway Bonds.

Q.—That call loan was made for the purpose of enabling MacKenzie & Mann to purchase the company's stock and the other was for some other purpose? A.—Yes sir.

Q.—Do you know? A.—No.

Q.—That is the small one of \$11,000? A.—Yes sir.

Q.—When the transaction was completed and the new securities substituted MacKenzie and Mann were both members of your Board. That is right? A.—Yes sir.

Q.—Are you aware, or were you aware at the time, what these companies were whose securities were substit-

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tuted for the unauthorized securities? A.—Yes sir I went into the matter very carefully.

Q.—Well then we will take them one by one. What were they? A.—The first was the Lake and Ocean Navigation Company.

Q.—What was the other? A.—The Vancouver Gas Company.

Q.—And the other? A.—Was the Imperial Rolling Stock Company.

Q.—And those three, we will call the first one the Navigation Company to give it a short name, the Navigation Company, the Gas Company and the Rolling Stock Company, those were the three? A.—Yes sir.

Q.—Do you know anything about the ownership or the stock holding of any of these companies? A.—The Navigation Company I understand, the stock is pretty well distributed.

Q.—At that time, what about matters at that time? A.—Yes at the time.

Q.—At the time of the transaction? A.—That is my understanding. I didn't see the stock list, it is a large company and has a fleet of 7 or 8 large steamers on these lakes and doing a very good business.

Q.—I want to get at the stock holding. Was it a MacKenzie and Mann Company? A.—I don't think it was.

Q.—You didn't think that at the time? A.—No.

Q.—You didn't know they had an interest in it at the time? A.—Yes they had an interest in it.

Q.—Do you know how many shares? A.—No.

Q.—Do you know what the total share capital was? A.—No.

MR. McLAUGHLIN: The statement was here yesterday.

MR. SHEPLEY: I will get that. A.—I cannot remember the details now. That is about 3 years ago. I know it was quite a large company and the vessels, their average valuation was about \$200,000 a piece. And Mr. Nicholls I think was one of the main men in the concern, and Mr. Ames and I believe Lieut-Col., now Sir Henry M. Pellatt and MacKenzie and Mann were both interested in the company and I don't remember what others or what other names.

Q.—Had MacKenzie and Mann substantial interest? A.—I think they had.

Q.—Had Mr. Pellatt? A.—I think he had.

Q.—You think he had too? Do you know anything about the history of that company between the time of its

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organization and the time of this transaction? A.—No not much.

Q.—You don't know much? A.—No.

Q.—Do you know how old that company was for instance? A.—I know they took over some other navigation company, they took over some vessels.

Q.—Do you know how old it was when it was organized? A.—No.

Q.—Do you know what way it was organized? A.—By special Act of Incorporation, I believe.

Q.—Do you think it is a special Act of Incorporation? I don't want to hurry you, I want you to reflect a little, and I want to know what guided you? A.—What guided me was the financial standing at the time. I didn't go into their past history no more than what is contained in their financial statement.

Q.—You did have correspondence with the Superintendent of Insurance? A.—Yes, sir.

Q.—During the time of the change of the securities, and perhaps it will assist you a little if we look at that for a moment. On the 2nd of March, 1904, that is not three years ago and only two or a little more, you advised the Superintendent of Insurance by a letter of that date of the substitution of the securities in respect of both these call loans of the three stocks you have spoken of. (This letter was then read.) That agrees with your recollection, of course? A.—Yes, sir.

Q.—And in respect of the two larger of the two call loans you seemed to have retained the 4,000 shares of the Manufacturers' Life as collateral security? A.—Yes, sir, the two loans were put into one. They were amalgamated so that the 4,000 shares would be collateral to both.

Q.—I think that would be so except that the letter does not put it so, your letter separates it. You say you made one loan for \$125,000 odd and one loan for \$11,000 and you do not allocate these securities to the different loans? A.—They were all put in one hypothecation.

Q.—Have you got the hypothecation? A.—Yes, sir.

MR. TILLEY: Which date, March 3rd?

MR. SHEPLEY: Yes.

MR. TILLEY: That is put in as an exhibit.

MR. SHEPLEY: Then the same letter speaks of the Dominion Coal, I suppose that is the \$240,000? A.—Yes, sir. (The portion of the letter was then read down to "particulars" of which will be given in a few days.)

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Q.—Now this is the hypothecation that you speak of, is it? A.—Yes, sir.

Q.—That is of the \$125,000 odd and \$11,000 odd, in all \$138,000 odd? A.—Yes, sir.

Q.—That seems to have been as you say the whole of this hypothecation is in respect of the loan of \$138,000 odd, which would be the sum of these two? A.—Yes, sir.

Q.—That is on 1,600 shares of Canadian Lake. That is 50 shares less than you stated to Mr. Fitzgerald? A.—Yes, sir, some of the securities were increased a little and others diminished. That is the number of shares; I think the note of hypothecation shows that.

Q.—The note of hypothecation represents the transaction as it really took place? A.—Yes, sir.

Q.—Then instead of 1,650 shares you got 1,600? A.—Yes, sir.

Q.—You got 1,650 shares of Rolling stock? A.—Yes, sir.

Q.—You got 8,566 of Vancouver Gas instead of 8,250? A.—Yes, sir.

Q.—Which your letter states? A.—Yes, sir.

Q.—So that there was an increase there. The 4,000 shares that is not put as collateral. That is put as a part of the hypothecation, 4,000 shares of the Manufacturers', that is put in with the other stock as part of the main security. Not put as collateral as in your letter. Have you any recollection of that? A.—We always spoke of it as collateral, we took it as additional security.

Q.—Do you think it is proper to your company to loan on your own stock? A.—I don't think it is without having other security as collateral.

Q.—Was your idea that it was a proper thing to advance money upon the security of your own stock? A.—Not as collateral, no, I don't think it is, not a straight loan on our own stock.

Q.—Now that the hypothecation is here. Then you have an inquiry from the Superintendent in regard to these companies on the 7th of March. He asked you where the head office of the Navigation Company was. Under what authority it was incorporated, and he asked for the same information for the other two companies? A.—Yes, sir.

Q.—Perhaps it will be better to deal with these as we were giving them. To that you gave him the information contained in the letter of the 9th of March? A.—Yes, sir.

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Q.—“Navigation Company is lodged in the McKinnon Building and it is incorporated by letters patent.” That does not yet tell, does it. You don’t know yet what letters patent were issued? A.—No, we just satisfied ourselves by giving the number of the Act, Chapter 15, 2nd Edward VII.

Q.—We will just turn over to the charter of that company. This is the charter, and you see it is letters patent issued under the General Act, not by special Act of Parliament, but letters patent issued under the General Act. I don’t know that that makes any difference. It is your recollection, your knowledge at that time that I am dealing with. It recites the Act and it recites certain persons named you saw at that time. You saw the persons who were the incorporators? A.—I don’t know that I took any particular notice. A great many companies are incorporated by parties that have no real interest.

Q.—You don’t recollect whether that was of any interest to you? A.—I think it was just forwarded to the Superintendent.

Q.—If you had looked at those names would that have had any significance to you? A.—I don’t think it had. Richardson, Anglin, Cassels, Dow.

Q.—None of these names that you know? A.—No, I don’t know one of them.

Q.—Not to-day you don’t know one of them? A.—No.

Q.—And probably you would not know then? A.—No, I don’t know that I would. I would think that they were there with the object of complying with the Act by supplying a certain number of names, five I believe.

Q.—You don’t know these gentlemen, and their names do not suggest any notion to you at all? A.—Only what came out in the evidence; I understand from that where they were located.

Q.—Can you remember whether at that time you made such inquiries that enabled you to know that Mackenzie & Mann had a substantial interest. I won’t put it any higher than that? A.—Well, I knew that.

Q.—You knew that it was one of the Mackenzie & Mann Company. Is that saying too much? A.—Yes, that is saying too much. I didn’t know that.

Q.—You knew that Mackenzie & Mann and Pellatt had an interest? A.—Yes, sir.

Q.—What other gentlemen were there that were on your Board? A.—

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I don’t know any others that were on the Board.

Q.—Did you direct your attention to that at all? A.—I did not, as a matter of fact. It is very hard to get any corporation around the city that Mackenzie & Mann or Pellatt are not interested in.

Q.—What I want to get at is was your attention called to the fact that companies borrowing moneys from the Manufacturers’ had the same or a large common directorate with your company? A.—It was not really considered.

Q.—That was not a matter that at all struck you in making your investments? A.—No.

Q.—Would you not have considered the fact of the same men or the same body of men having a seat on the Board of Directors? A.—No, I would not consider their being interested as shareholders.

Q.—I said Directors? A.—I would not consider that the borrower and lender were the same parties.

Q.—That is not what I am asking you. I want to see the mental attitude of your Board of Directors. Does it strike you from any point of view that it is objectionable that members of your Board should be borrowing money from your company? A.—Perhaps if you would give me a concrete example.

Q.—No, I will put a general question. I want to get at the attitude of your Board of Directors? A.—I will take an example, then. The Toronto Street Railway: I would consider we would be quite justified in buying their bonds or lending on their bonds although Mackenzie and Mann and even Pellatt were on their Board. I would not consider for a moment that it was illegal but that it was entirely correct.

Q.—Is it because it is Mackenzie & Mann and Pellatt or is it the general principle? A.—I mean the fact that they were also Directors of the Toronto Street Railway and the Manufacturers’ Life.

Q.—Is that from any personality in the gentlemen? A.—No.

Q.—You had adopted the general principle that it is not objectionable so far as you can see that there should be common Boards controlling the sale on the one hand and the purchase on the other. You do not consider that objectionable, is that right? A.—That is not putting it exactly as—

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Q.—That is putting it as I think I put it before.

JUDGE MAC TAVISH: Would you like to put it in a different way? A.—I would like to have the question put again.

(Reporter reads above question.)

Q.—You understand the question, Mr. Junkin. What do you say to that? A.—If the parties absolutely control the sale and purchase on both sides it might be considered as not exactly correct, although in my opinion even then there is nothing necessarily wrong about it. The investment is a good one.

Q.—You see I am not speaking about the character of the investment as an investment. I am speaking about the transaction by which assets passed from one body of shareholders to another? A.—In my opinion there is nothing necessarily wrong about it.

Q.—That is hardly the question. The thing may be perfectly fair, it may be a good transaction for the benefit of both sides. I am asking you as to the general principle covering such matters. I want to see whether that principle appeals to you as a Board as a proper principle to be observed in connection with commercial dealings? A.—To-day I would take a good investment no matter who owned it for the Manufacturers' Life.

Q.—A good investment for yourselves, perhaps? A.—If the company got it cheaper than from any other person and if it was placed before the Board.

Q.—You are introducing an element. I don't want you to deal with the safety of the company. I don't want you to deal with the question of whether the security is good? A.—It is an ethical question.

Q.—Treat it so; there ought to be ethics in business? A.—Yes, sir.

Q.—Treat it, then, as an ethical question? A.—I would buy an investment again, no matter from whom I would buy it in the lowest market.

Q.—And if you were selling you would sell it in the highest market? A.—Yes, sir.

Q.—Can you see any conflict in a man buying and a man selling under the circumstances? A.—It might arise.

Q.—Does it not necessarily arise as a matter of principle. You don't wish to go that far Mr. Junkin? A.—I don't think it necessarily arises.

Q.—Very well, at all events that has not been a guiding principle in the

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transactions that you have put through for the Manufacturers' Life? A.—No not absolutely.

Q.—Well has it at all? A.—Yes sir to a certain extent.

Q.—Well what do you mean, don't you mean just what you told me a while ago where you are making a good investment you don't care who you are dealing with? A.—That is about it, that way.

Q.—Have the personality of Mackenzie and Mann any bearing on the value of the securities? A.—From all companies where their experience, their genius for management, for finance is exerted I think it has a good deal to do with the success of a company, many of the institutions they are connected with.

Q.—And therefore with a marketable value of their securities? A.—Yes sir.

Q.—Therefor if, I think you said to my learned friend yesterday, if it had not been Mackenzie and Mann you would not have made the same efforts to get them on the Board or you would not have had the same willingness to accept the transaction. That is right? A.—Unless it was some other gentleman as strong.

Q.—Would you say the same with regard to the securities you took over on the 3rd of March, 1904? A.—No, in that case I went over more from the financial statement.

Q.—We will come to the financial statements in a moment. That is with the incorporators? A.—We didn't pay any attention to that.

Q.—You knew the interest of the Directors you have named. Do you say you didn't pay any attention as to the personality of the Directors as business men? A.—Yes I did as Director.

Q.—Who suggested the substitution of these securities? A.—The borrowers.

Q.—That is MacKenzie and Mann? A.—Yes sir.

Q.—Were these the only securities they offered you by way of substitution? A.—No they gave me a long list of securities, quite a long list.

Q.—Have you that list? A.—No I have not. It was presented to me in their office.

Q.—You didn't preserve that? A.—No.

Q.—Didn't take it away even? A.—No.

Q.—Presented in their office from a large list? A.—Yes sir.

Q.—These three securities they suggested? A.—Yes sir.

Q.—How long did it take you to

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make up your mind? A.—Most of them were ruled off although they were good securities they were not technically within the Act. Otherwise we were satisfied with the securities we had.

Q.—You wanted to come within the Act? A.—Yes sir.

Q.—What do you know yourself of the securities, about this particular company? A.—The Navigation Company?

Q.—The Navigation Company? A.—I had the financial statement before me which is an Exhibit.

Q.—Had you that financial statement at the time? A.—I had not ever had it in my possession, the general financial position of the company.

Q.—Do you remember now what that showed? A.—I don't remember.

Q.—You don't remember. Do you remember what it showed as to dividends? A.—I do not.

Q.—Did it show anything about dividends at all? A.—I don't think they were paying dividends at all. My recollection was their assets about equalled the liabilities and when I put the value at \$50 a share, I considered it a very conservative valuation.

Q.—The assets equalled the liabilities? A.—Yes sir.

Q.—You understood it was not paying any dividends? A.—Yes sir.

Q.—And you took these shares or agreed to take these shares fixing subsequently as I understand you the value at 50 cents on the dollar? A.—Yes sir.

Q.—You didn't at that time look to see what their powers were? You did that subsequently didn't you when Mr. Fitzgerald asked for that? A.—Yes sir I didn't pay much attention at the time. That was forwarded to Mr. Fitzgerald, I knew it was a Navigation Company and in a general way I knew what their powers would be.

Q.—The Vancouver Gas Company, What did you know about that? A.—I knew they were to be taken over very soon by the Vancouver Electric Railway Company.

Q.—How did you know about that? How did you become aware of that? A.—Mr. Lukes explained that matter.

Q.—Who is Mr. Lukes? A.—He is in the financial department of MacKenzie and Mann Company.

Q.—In other words too you got that from MacKenzie & Mann who was offering the security? A.—Yes sir.

Q.—You learned what? A.—Learned that they were to be amalgamated or taken over by the Vancouver Electric Railway Company.

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Q.—Did you know in a general way too whether MacKenzie and Mann had an interest there? A.—I knew they had.

Q.—What interest? A.—I understood they were quite large holders.

Q.—Controllers? A.—I think so.

Q.—Colonel Pellatt any interest there? A.—No not that I know of.

Q.—MacKenzie & Mann had a controlling interest in this particular company. Did you get a financial statement about this company? A.—I don't know that I got a printed financial statement, I got a statement that satisfied me at the time. They satisfied me by the statement.

Q.—You didn't get a financial statement at least you didn't send one to the Superintendent? A.—No there was no financial statement printed.

Q.—What inquiries did you make? A.—One inquiry was after the value of the stock. That it would be taken over by the new company. I understood it was to be taken over at \$10 a share.

Q.—Shares being how much? A.—That would fix it.

Q.—The par value I want? A.—\$100 a share.

Q.—Take the other company, the Rolling Stock Company, you have the Act of Incorporation of that company? A.—Yes, when Mr. Fitzgerald asked for it. We hadn't it at the time.

Q.—What about MacKenzie and Mann so far as that company is concerned? A.—It is a company, I understand, in which they are largely interested.

Q.—What sort of a company is it? A.—It is for the purchase and re-leasing of rolling stock, or for the purchase and re-sale of rolling stock.

Q.—Is it a company made as a sort of subsidiary company to the Canadian Northern, do you know? A.—So I understand it.

Q.—Did you understand it so then? A.—Yes.

Q.—What capital did you understand that company had? A.—Their authorized capital is \$300,000. I think at that time their paid-up capital was about—I am just speaking from memory—\$120,000 I think at that time paid in. And they had rolling stock for the full amount, which they owned outright.

Q.—They had rolling stock which they owned outright? A.—Yes.

MR. McLAUGHLIN: We have a financial statement of that company. He cannot be expected to remember these details. When he furnishes you with the documents he actually had

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at the time. This is merely a test of a man's memory.

MR. SHEPLEY: Do you remember anything more about that company?

A.—I remember that it was represented to me that it was a company that was making good money.

Q.—Paying dividends? A.—No, they were turning the dividends back into the company, which made it all the stronger.

Q.—Do you know how old a company that was, or did you then? I suppose you did not pay attention to that at any time? A.—No, I don't think I did.

Q.—But you did understand that it owned rolling stock to the amount of the paid-up capital? A.—Yes, and the rolling stock was comparatively new, I understood at the time, and therefore in good condition.

Q.—What were they doing with the rolling stock? A.—It was leased to the Canadian Northern at a lease which netted them 20 per cent, I think it was, on their capital.

Q.—20 per cent on their paid-up capital? A.—Yes.

Q.—But that was not being divided among the shareholders, but you say going to increase the profits. The statement that you got did not show any of that did it? A.—I don't just remember now what the statement was. I have a better recollection of what the company was, what the actual facts were.

Q.—Then we will go on to the other transaction. The Department was pressing you to get rid of the Dominion coal. Was there another stock too? A.—Crow's Nest Coal.

Q.—Dominion Coal and Crow's Nest Coal. Now what did you do about that? A.—I got a number of the Directors together, whom I considered most responsible for the purchase of it, those who were attending the meetings most regularly, amounting to ten in all, and showed them that they were personally responsible for the loss on this stock, and got them to agree to put up the loss and take the stock off the company's hands at cost.

Q.—Then to make up the loss, what you mean is that you got them to agree to take the stock off the company's hands at what it had cost the company? A.—Yes.

Q.—And was the thing finally carried out in that way? A.—Yes, the Directors did that. They formed a company to hold the stock so that they would not have to split it up and each

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man take his share individually. It was all kept together. The idea was that in time it would come up again, and they would come out of the transaction without loss.

Q.—And did the money, the actual cash, get into the coffers of the Manufacturers' Life? A.—Yes, \$240,000.

Q.—In cash? A.—Yes.

Q.—Did any of that money come from the Manufacturers' Life? A.—There were some loans from the Manufacturers on good securities which came within the Act.

Q.—What loans were there? A.—Western Insurance was one I believe.

Q.—In the first place who borrowed? A.—The Prudential Securities Company.

Q.—What was the Prudential Securities Company? A.—This company that was formed to hold the Crow's Nest and Dominion Coal stock.

Q.—And that company was formed by whom? A.—By the ten Directors who assumed the loss.

Q.—That is there were ten Directors of the Manufacturers' Life who formed a company called the Prudential, with the view of taking this stock off the hands of the Manufacturers' Life? A.—Yes, they had agreed before they formed the company, they had agreed to take it off.

Q.—Then how much money did the Manufacturers' lend to the Prudential? A.—I would have to refer to the documents to know that.

Q.—Where are they?

MR. McLAUGHLIN: They are put in at Ottawa. The correspondence and agreements are there. It was about \$28,000.

MR. SHEPLEY: Do you remember how much you loaned altogether about? A.—I do not sir, but now that Mr. McLaughlin mentions the amount, it brings it to my memory that it was about \$28,000.

Q.—I see a memorandum among the Departmental papers; perhaps this will help you. "Memorandum of stocks hypothecated by the Prudential Securities Company to the Manufacturers' Life Insurance Company as security for a loan of \$28,000." A.—That is correct. "On Western Assurance, Royal Loan & Savings Company, and Toronto Rails," all of which came within the Act.

Q.—The margin was pretty narrow was it not? A.—Yes, it was narrow.

Q.—\$30,500 was the market value according to this statement, and you

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loaned \$28,000 on it. Then where did the rest of the \$240,000 come from? A.—It was put up in cash.

Q.—The Manufacturers' had nothing to do with that? A.—Nothing to do with that.

Q.—Directly or indirectly? A.—Directly or indirectly.

Q.—Have you got the bank books here this morning? A.—Yes, with regard to that margin, if you will permit me I might just remark.

Q.—This is the Traders' Bank deposit book, which gives the transactions of December, 1903, and the item on December 28 of deposit \$386,443.51, is the item in question? A.—Yes.

Q.—And then this cheque on the subsequent page, without any date to it, \$387,925.77 is the putting it back again? A.—Yes.

Q.—I put in the bank book and cheque together. (Exhibit 63.) Now in connection with this alteration in the apparent position of things, you got certain letters from bankers which you sent to the Department at Ottawa. Do you remember about that? A.—I do not sir.

Q.—What bankers are you doing business with? A.—The Traders and Standard I think at that time.

Q.—Had you anything to do with the Union? A.—Yes.

Q.—Well, were there three banks or two? A.—I don't know just when we began with the Union. I am not sure just as to the date.

Q.—You do not remember about obtaining letters from the bankers to send to the Department. I suppose the bankers were aware of what you were doing? A.—I couldn't say. The details were arranged by the clerks in the office.

Q.—I suppose the details were arranged by the clerks in the office, but not the transaction itself. What do you say to that, or can you answer it? A.—No, I could not.

Q.—I see a letter on the 19th of February in the Departmental file from the General Manager of the Traders' Bank, addressed to you. "In compliance with your request, I beg to say, that your company was not indebted in any way to this bank on the 31st day of December last, nor did we hold at that date any securities of your company as collateral to any loan current with you." Do you remember that now? A.—That would just be a formal letter, no doubt, in response to some inquiry

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made by Mr. Fitzgerald for such a letter.

Q.—Obtained for the purpose of sending to Mr. Fitzgerald? A.—Yes.

Q.—Obtained for the purpose, is it fair to say, of inducing the Insurance Department to believe that the transaction was a real one? A.—No, I don't think so. I think Mr. Fitzgerald wanted to know if there were any other transactions. That is as I understand it.

Q.—You think that was the reason that Mr. Fitzgerald was asking, if there were any other transactions besides that? A.—Yes, that is February 19th, after he had made his examination.

Q.—"Nor did we hold at that date any securities of your company as collateral." That would apply to that, but the first part of this, "I beg to say that your company was not indebted in any way to this Bank." Your company would have been largely indebted but for that credit, would it not? Which was not a real credit you know? A.—I don't know how the bank account stood now.

Q.—We will just look at that. The deposit was \$386,000; the balance carried over is \$321,000 odd. A.—On December 31st.

Q.—Yes, that is right, isn't it? A.—Yes.

Q.—Then if that \$386,000 had not been there you would have been overdrawn? A.—Well, that was MacKenzie & Mann's cheque. Yes, we would have been overdrawn without that.

Q.—Then you do not say now of course, after what you have told my learned friend yesterday, you do not at all say now that it was a real transaction do you? A.—Well, I use the same words as I did yesterday; the Dominion Coal was a nominal sale, the repayment of their loan I consider a real transaction.

Q.—It was not intended to stay that way; MacKenzie & Mann did not intend it nor did you? A.—No, not unless some one objected to it.

Q.—A mere temporary device, won't you go that far? A.—Well, it was a loan that would not have been remade again had anyone objected to it.

Q.—Why MacKenzie & Mann did not give you their cheque until it had been arranged that they should get it back again? A.—Well, it was only arranged with me personally; I could not control the Board, if the

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Board objected to that, they could not have got the loan back again.

Q.—Perhaps they would not have given you the money if they had had any anticipation that the Board would have objected? A.—It was the understanding—

Q.—Please do not tell us that “if the Board had objected.” There was no expectation or intention that the Board should object, was there? A.—No, there was not, but if they had they could not have had the loan.

Q.—Then I would rather you did not qualify it. Now did you tell Mr. Tilley yesterday, or did he ask you whether or not there were any other occasions than the two occasions at the end of December, 1902, and the end of December, 1903, when that sort of thing was done? Putting through a transaction which had not any reality in it, for the purpose of altering the appearance of your Government return? A.—I think those were the only two years.

Q.—You think those were the only two? A.—What were the two you mentioned?

Q.—1902 and 1903. What are you going to say to that? A.—I think that is correct.

Q.—Don't you know whether it is or not? That is the sort of thing that you would not do without remembering one would think? A.—There was a call loan taken up, Mr. Sanderson's call loan. I am not sure whether it was one of those years or not.

Q.—Then as you have told us about that I will include that. With the exception of the loans that you have now mentioned with respect to which this device was adopted, are you aware of any others? A.—No, I cannot think of any others.

Q.—Would you not know if there had been? Wasn't it an extraordinary thing to do, so extraordinary that your memory would retain it? A.—Yes, I think I would.

Q.—Then do you say with perfect candor that you do not know of any other case, or cannot you say that? A.—Just let me refresh my memory a bit from the documents.

Q.—Which documents? A.—Some papers which Mr. McLaughlin has there.

Q.—What papers are they? Papers that I have not seen yet? A.—(Refers to documents in Mr. McLaughlin's hands) I think that is quite correct sir.

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Q.—What did you mean when you spoke of the Pellatt matter just now? As the Pellatt matters will stand on their own footing I do not want to take them up at present? A.—Then I am safe in saying there were no others.

Q.—Then I will call your attention to something that I would like you to explain to me if you can. The Executive Committee seems to have met on the 29th of December, 1902. Would you attend that Committee? A.—Yes.

Q.—Mr. Pellatt was there, Mr. Beatty, Mr. Patterson, Mr. Mason, yourself, and the Assistant Secretary, and Mr. Ross was in the chair. Now I see here statements were presented showing bank balances \$3,257. What is the meaning of that? A.—That was the balance in the bank to our credit.

Q.—We have just looked at it on the 31st of December. A.—That is the combined result of the bank accounts.

Q.—So there might be this much credit resulting from one transaction in the one reduced by overdrafts in the others? A.—There might be.

Q.—Then what call loans were there, \$83,700? A.—They will appear in the statement that we are presenting this afternoon, that we hope to present, that Mr. Franks is working at now. He is presenting a statement of all call loans that have ever been made.

Q.—“Obligations.” What would that mean? A.—That would mean loans on real estate or bonds purchased, or anything of that kind that we had undertaken.

Q.—But not advanced? A.—Yes, well, the loans were under way; while the papers were being put through.

Q.—That you say would cover anything you had not advanced on securities that you had agreed to purchase? A.—Yes.

Q.—Including stock? A.—Yes.

Q.—Then what is the next item, “Standard Bank Loan”? A.—That was a loan that we had from the Standard Bank.

Q.—What for? A.—For payment of any securities that we might have purchased in advance of having the money on hand. Sometimes when a good security would come along, even though we had not the money on hand, we would purchase it, because our income at that time would be about \$80,000 a month.

Q.—What was your arrangement

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with the Standard Bank, was it in writing? A.—Yes, I think it was.

Q.—I would like to see the agreement you had. About when would that agreement be made. A.—Some-time during that year I think.

Q.—Going back to January of that year you had an overdraft in your bank balances of \$263,000 odd. Then that overdraft continues with fluctuations until we come to the Standard Bank loan, so that I suppose will about fix the date of your bargain. I have it here now on the 14th of March, 1902; Standard Bank Loan, May 1st, \$200,000. Is that agreement here? A.—I scarcely think it would be. We can produce it however.

Q.—Tell me what it is? A.—Just a loan on securities in the regular way.

Q.—14th March is the date of the minute. Were there more than one of these documents or a continuing one? A.—I think there would probably only be one.

Q.—Do you remember how that would be? A.—No, I do not.

Q.—Then that would seem, from the chronological order in which it is arranged, to have been something for the purpose of wiping out an overdraft? A.—Yes, it was to save money in our regular bank account in the Traders and Union, if we had a bank account with the Union at that time. On an overdraft they would probably be charging us 5 or 5½ per cent. or whatever they were charging brokers.

Q.—Then that \$200,000 in its inception at all events—we will see what its history was afterwards—was a loan advanced to you to heal your overdrafts? A.—Yes, to save interest.

Q.—To save interest by healing your overdrafts? A.—Yes.

Q.—Then why do you tell me that was a sum borrowed to enable you to purchase securities? A.—Well, that was the cause of our overdrafts, any time we had an overdraft, either to purchase securities, or to get a higher rate of interest in some other way; some of this money we had out bearing 6 per cent, and we were only paying the Standard Bank, if I remember rightly, 4½.

Q.—You say that the overdraft had been created then in the first instance by your, let me call it, over-investment? A.—Yes.

Q.—By your investing in advance of your having funds to do so? A.—Yes.

Q.—In other words you could borrow at 5 or 5½ from the bank, do you

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mean to say, and could lend to advantage, invest to advantage. A.—We could borrow at 4½ I think.

Q.—You said 5 or 5½ a moment ago? A.—Well if I did it was a slip of the tongue.

Q.—And you could invest to advantage borrowing at 4½? A.—We had evidence of that yesterday. Some of these call loans were bearing 6 per cent, the MacKenzie & Mann loan was made at 6 per cent.

Q.—Take this very instance. Your call loans were only \$63,000 when you borrowed the \$200,000 from the bank to heal your overdraft. There wasn't any money in that? A.—Well, we probably had taken some other securities that we thought very favorable.

Q.—When you had the bank balance overdraft of \$235,000, your call loans were only \$63,400. That seems to have been a steady amount along there, \$63,400 of call loans? A.—Yes, I remember of one loan now, a large amount, a couple of hundred thousand dollars I think to the National Trust at 6 per cent, which I think came in about that time, and caused our overdraft largely.

Q.—When would that be? A.—The books would show, every one of these are included in the minutes.

Q.—Is that the first reference to it? A.—Yes, at least that would be one reference, I should not say the first, I am not sure about that. This is the date, January 6th, 1902. No that would not be the first; that was about the time we expected the loan to be repaid and we had the opportunity of continuing it for a longer time.

Q.—It was then a loan of \$100,000 only apparently. Just see if this is the first reference to that, July 29th, '01? A.—I couldn't say that that was the first. That was part of it.

Q.—Just read that and see whether that does not look like the commencement of the transaction. "Re Sao Paulo Bonds. A loan of \$50,000 or \$60,000 on the security of double bonds amount of these bonds for a period of 4 months at the rate of 6 per cent." A.—Yes.

Q.—It is the dollar mark apparently instead of per cent. "The loan guaranteed by the National Trust Company, was approved." A. Yes, I remember now.

Q.—Now the National Trust Company, if that entry means what it says, offered to borrow \$50,000 or \$60,000 from you and to deposit as security twice the amount in Sao Paulo Bonds? A.—That is exactly what the transaction was, clear-cut and precise.

Q.—And this statement, "Loan

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guaranteed by the National Trust Company," the Trust Company was borrowing was it not? A.—Yes.

Q.—Then there wasn't anything in the guarantee, the company was liable for it direct? A.—Well it was put in that way, that we had their covenant, that is really what it meant.

Q.—Then I suppose you considered, or did you, the propriety of dealing in that sort of security? A.—Oh yes, we considered that quite a legitimate security. And the loan we considered a very attractive one on account of the rate of interest and the high class of the securities.

Q.—Never mind about that, I am more interested in finding out what your view was, at the moment more interested in finding out what your view was as to your right to deal in that class of security and in that particular security? A.—Yes, we considered it quite within our powers.

Q.—Tell me what description in the Statute you conceived it to fall under? A.—The Statute says we may invest in the bonds of a power company chartered in Canada.

Q.—That is the clause under which you put it? A.—And also of a railway company, a street railway company chartered in Canada, and this was both. Both a power company and a street railway.

Q.—And it got its charter where? A.—In Canada and all its Directors were Canadians.

Q.—And its operations were carried on where? A.—In Sao Paulo.

Q.—Where is that? A.—In Brazil.

Q.—Then that was the first thing. What did you loan at first, 50 or 60? A.—Well the next minute would probably show. That was the application for the loan.

Q.—That was approved it says? A.—I don't know which amount was loaned at that time but the loan was increased very soon afterwards my recollection is.

Q.—Yes, we will get the place where it came up to the \$100,000. Now here is something, just as we go. You apparently had a bank balance on the 3rd of September of \$1,400 and call loan outstanding of \$43,000; while the next or the same day the Executive Committee meeting shows an overdraft of \$111,000, and call loans being the same amount. A.—Well, we may have made some large investment on that day. It is September the 9th. A week afterwards.

Q.—Oh yes, there is a 9 put up here; I did not know whether that was intended to alter it. Perhaps it is a week afterwards. Then I have

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got down to December and I do not find the record of it being increased to \$100,000. At all events by the 6th of January it had been increased to \$100,000, and having been increased to \$100,000 the National Trust offered to extend it for a year on the security of the bonds "At 80 instead of at 50 as at present." That means to reduce the margin? A.—Yes.

Q.—"And to take a further loan up to \$75 on the same conditions. This offer was accepted." Now that brings it to \$175,000. You accepted that? A.—Yes.

Q.—And in order to carry that out you would have to overdraw your bank balance still further, the overdraft was then \$231,000, you would have to overdraw it, as in fact you did because at the next meeting it was \$263,000 overdraft? A.—Yes. You see there was \$175,000, we were counting on the return of that \$100,000, which probably accounted for our over-investment and then the \$75,000 additional that we loaned made the \$175,000.

Q.—But you have told me that this over-investment was a matter of policy with your company; at least I understood that what you said meant that, that as a matter of financial business policy your company deliberately over-drew for the purpose of overinvesting? A.—Oh no, I would not put it that way, but it often happened in that way, when a very attractive loan of this kind came to us we would not turn it down because it necessitated an overdraft, that is what I mean.

Q.—But your over-draft seems to have been pretty constant upon the whole apart from this and besides this, until the time came when you borrowed from the Standard Bank and wiped your overdraft out. Had you an agreement with the National Trust Company? A.—We would have the regular note of hypothecation.

Q.—I would like to have that too. A.—That no doubt would be returned in the usual way after the loan was paid off.

Q.—Then this standard Bank loan, had that anything in connection with the National Trust borrow? A.—Only in that way that it arose out of our being short of that \$175,000.

Q.—The transaction with the National Trust Company depleted your bank account and the loan from the Standard Bank made the Bank account good again? A.—Yes.

Q.—What did you do with that indebtedness to the Standard Bank when you came to make your Government

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return? A.—There never was any indebtedness to them when we came to make the Government returns.

Q.—How was that? A.—It was always paid off before the end of the year.

Q.—And what was done with it at the beginning of the year again? A.—Well, I don't know. These records will show exactly, that is if it ran over the year.

Q.—If these records will show exactly I would like to see it. That is what we were told by Mr. McLaughlin a little while ago, and so far as we have seen the records do not show. On the 29th of December, '02, the Standard Bank loan was \$149,000. So that at the last meeting of the year that was the result, \$149,000 was what you had borrowed from the Standard Bank? A.—Well, that was the last meeting of the year but it was not the last day of the year.

Q.—It was \$150,000 on the 5th of January. Now what did you do with it in the meantime? A.—Well it is quite likely we took up the loan at the end of the year.

Q.—So that it would not appear in the Government return? A.—Largely.

Q.—That would be the reason? A.—Yes.

Q.—Now I want you to show me the transaction by which that was brought about, what the device was you made use of? A.—Well, no device would be necessary, on account of the other transactions that you have just dealt with we would be in funds to take it up in the regular way.

Q.—What do you mean by that? Show me a cheque for \$149,000 there; tell me as nearly as you can recollect about how that was done? A.—I have no recollection of the actual facts. The way I would suppose it would be done would be when we were put in funds by these other transactions that have been dealt with already and had funds in the Traders Bank, that the other would be chequed out and the loan closed up.

Q.—And then borrowed back again after the 1st of January? A.—Yes, if it were needed.

Q.—Let me have no mistake about it, Mr. Junkin; you say that was largely done for the purpose of suppressing the transaction in the Government return? A.—Which? The taking up of the loan?

Q.—Yes, the taking up and renewing? A.—No, I think I had better correct that.

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Q.—That is what you did say; you are perfectly at liberty to correct it. What other object was there? A.—One would be to save interest. If we had the funds in the Traders Bank it would be unnecessary for us to continue the other loan even for a day, if it is 3 or 4 days interest on a considerable amount.

Q.—There does not seem to be any record in the minutes about it at all. Do you think you did go through the form of giving a cheque for it at all? A.—Oh yes, I think it is quite possible we did. As a matter of fact we were paying them cheques on account of it whenever we had funds on hand; to save interest we gave them cheques on account, so that the amount was always varying.

Q.—It was \$149,000 on the 29th of December; on the 5th of January it is \$150,000, and there is nothing in your minutes on either occasion that indicates anything at all having been done; there is nothing to indicate that you took any such course as you suggest? A.—Well there would be no minute necessary for paying it off.

Q.—There would be a minute necessary for borrowing it again? A.—There might be a minute necessary for borrowing unless we considered the original authorization was sufficient authority.

Q.—We will have the bank deposit book here? A.—Yes, we will get them.

Q.—And we will see whether anything of that sort took place? I suppose it goes without saying that as an indebtedness if it existed then it ought to have been shown in the Government returns? A.—I am quite satisfied there was no indebtedness at all. Everything with the Standard Bank was quite correct; it was just a usual loan, accommodation which we had from them and it was paid off at any time we had funds.

Q.—Now it was suggested by the Solicitor for your company a moment ago that it would appear in the adjustment of the bank balances. That is impossible is it not? In the Government return I mean. Just look at it. A.—It would appear if it were paid off.

Q.—It is not possible that it appears there by any adjustment of the items or by way of adjustment? A.—No.

Q.—That is what I am asking. Then either you paid it off intending to take it on again, for the purpose of keeping it out of these returns, or else you kept it out of these

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returns without doing so, one or the other? A.—I don't think we did intend taking it on; I think we expected that \$100,000 from the National Trust to come in early in the year and that it would not be necessary.

Q.—That would seem to be a year before. How long did the National Trust loan continue? A.—It continued for a couple of years in all I think.

Q.—We will see whether the National Trust got another extension. The date of the extension was the 6th. This was extended for a year from the 6th of January; we will see whether there is anything about it then. On the 12th of January I see nothing about the National Trust.

MR. McLAUGHLIN: This is the minute of that call loan on the 5th of January, 1903. "Call loan from the Standard Bank for \$150,000." A.—Yes, you see we were expecting \$100,000 from the National Trust on the 5th of January.

MR. SHEPLEY: I am looking for a memorandum of any extension of that National Trust. That would appear here would it not? A.—Yes, but that would not apply to this particular matter.

Q.—I thought you said you were expecting that money, that \$175,000 from the National Trust; was I wrong in thinking you said that? A.—No, that was right at this time.

Q.—Then if you were expecting it and did not get it there would be a minute about it would there not? A.—Well didn't we read a minute a while ago?

Q.—You read a minute of the year before that. This was a loan for another year? A.—What is the date of that minute?

MR. McLAUGHLIN: January 5th, 1903. What is this about that you want in the minute? A.—The National Trust loan.

Q.—This is the call loan to the Standard Bank. A.—It was due at that time, that is what I want to find out.

MR. SHEPLEY: If this minute of the 6th of January, 1902, is correct it was falling due. A.—Well, that is exactly correct.

Q.—Then if it fell due and was not paid there would be a minute about it would there not? A.—Well, isn't that the minute, sir?

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Q.—No, that is the year before. You have got to come a year down from then. That is you have to come to January, 1903, don't you see that? Now I want you to show me on or about the 6th of January, 1903, any minute with regard to the National Trust loan? A.—Yes, I see.

Q.—Well now Mr. McLaughlin points out in the minute book, this is on what date?

MR. McLAUGHLIN: January 5th, 1903.

MR. SHEPLEY: This minute is, "Call loan from the Standard Bank, \$150,000 at 6 per cent. on the security of bonds and debentures, was approved." So that would indicate that you were right that the \$150,000 was repaid at the end of the year and taken on again at the beginning of the year? A.—Yes.

Q.—And it bore interest at 6 per cent. as the minutes state? A.—Yes, they had raised the rate on us.

Q.—So you were paying 6 per cent. to the Standard Bank. There wasn't much money in that was there? A.—No. When we got the loan first it was not six.

Q.—How long did that loan run after this 5th of January, 1903? A.—The minutes would show.

Q.—It is difficult to find it in the minutes? A.—Well, after that all the bank accounts were treated the same, the Standard Bank and the others I think were all put in together. It seems to disappear here. On January 19th—that would be after the National Trust paid off their loan, that was a very short loan, of very short duration.

Q.—That is the call loan from the Standard Bank was of very short duration, you paid that off when the National Trust company paid off theirs? A.—Yes.

Q.—We can get that all put in order when the books are here? A.—Yes, we can clear it up.

Q.—Then I will leave that for the present and come back to a subject I was asking you about before, namely the Imperial Rolling Stock balance sheet. This is the balance sheet that you spoke of which you saw and which satisfied you that the investment was a good one? A.—I am not sure that I saw this. These were furnished afterwards for the purpose of forwarding to Ottawa.

Q.—No, no, these were furnished by MacKenzie & Mann to you upon

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your request. This was put in yesterday? A.—Yes.

Q.—Then let us just look at it; I suppose that has a significance to your mind, as you have examined it? What is the meaning of all that array of figures with regard to the affairs of this company? A.—Well, the \$300,000 was the capital stock. This \$1,330,000 was bonds for the purchase of rolling stock, issued by this Imperial Rolling Stock Company; for the purchase of that amount of rolling stock or at least a larger amount of rolling stock than that. They issued bonds to the extent of 75 per cent.; when they bought Rolling Stock they would issue bonds and sell them for 75 per cent. of the cost price of the Rolling Stock. Those bonds amounted to \$1,330,000 less \$60,000 of these bonds that had already been retired. That is Series A Bonds. Then a second lot of Rolling stock was bought, series B., \$350,000, and the accrued interest on the series A bonds at the time was \$10,000, and on series B., \$7,000, in round numbers \$17,000, which made a total liability including the capital stock of \$1,938,024.43.

Q.—Now that \$300,000 of capital stock in order to be properly there must have all been all paid up of course. It could not be a liability for \$300,000 of capital stock unless \$300,000 of capital stock had been paid? A.—No.

Q.—Then you take it that that indicates that the capital stock had been fully paid up to the extent of \$300,000? A.—Yes, that is the meaning of that statement.

Q.—And that is the meaning you would take from it when you examined it for the purpose of seeing whether you would take this investment or not? A.—Yes.

Q.—Now come to the other side; we know what the liabilities are said to be; what are the assets? A.—The assets were Rolling Stock. The first purchase of Rolling Stock, \$1,280,732. and series B., \$357,291.

Q.—That does not say anything about Rolling Stock you know. It said, "Canadian Northern Railway Company Agreement A." and "Canadian Northern Agreement B." What does that mean? A.—I will endeavour to explain that. When the Rolling Stock Company purchases rolling stock they generally lease it to some railway on a ten years' lease to be paid in 10 annual instalments; the rent of the rolling stock really pays for it during the 10 years as well as paying the in-

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terest. It pays for the rolling stock outright, so that at the end of the 10 years the rolling stock becomes the property of the Railway Company.

Q.—Then what does it mean when it classes the Canadian Northern Railway Company Agreement under the head of assets, does it mean that that is rolling stock? A.—That rolling stock still belongs to the company until the last dollar is paid on it.

Q.—What are those figures? A.—That is the value of that agreement. They purchase, we will take round numbers for example—

Q.—That is the value of that agreement, that is what the Canadian Northern Railway Company has to pay? A.—Yes, that is the interest that the Rolling Stock Company still holds in that Rolling Stock. It may have been out a year or two years and the Railway Company have already paid certain instalments on it. Now the value of the remaining instalments on that Rolling Stock to the Rolling Stock Company is \$1,180,000.

Q.—Now has that asset, the Canadian Northern Railway Company Agreement A., anything to do with any of these bonds that are the liability? Manifestly not if what you have told me is correct? A.—Which bonds?

Q.—These mortgage bonds which are classed under the head of liability? A.—Yes.

Q.—What had it to do? A.—The Rolling Stock Company owning, we will take round numbers, owning say two millions of rolling stock, they would naturally issue bonds on that rolling stock and sell those bonds to any investor that wanted them. Those bonds are a first mortgage on the rolling stock.

Q.—Now what I wanted to know is this, is the present value, I think is the expression you used, to the Rolling Stock Company under this first asset, which you have told me appears to be \$1,280,000 odd, has that present value any relation to the mortgage bonds? A.—Oh yes.

Q.—What relation has it? A.—The mortgage bonds set out the details of the purchase or lease, whichever it might be called, to the Railway Company. The full details of this agreement are included in the bond that is issued for the public to invest in and becomes part of the mortgage, so that the purchaser of these Rolling Stock Bonds has not only the covenant of the Rolling Stock Company but the covenant of the Railway Company as well, because the Railway Company have

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covenanted to pay for those in 10 annual instalments.

Q.—To pay what for them, their value? A.—Yes.

Q.—Or to pay the amount of the bonds, which? A.—The Railway Company covenant to pay the full value.

Q.—And who pays the bonds? A.—The Rolling Stock Company is first and primarily responsible for the bonds but the Railway Company is also a party to the bonds.

Q.—Primarily the company is? A.—Yes.

Q.—And then when the bonds are paid the Rolling Stock Company is entitled to whatever is over, subject to its agreement with the Railway Company? A.—Yes.

Q.—Now if you will observe that \$1,280,732.77 is the exact sum of the principal of those bonds plus the interest due upon them? A.—Yes.

Q.—And the second asset is the precise amount of the series B. bonds plus the interest due upon those. You see that? A.—Yes.

Q.—How does that tally with what you have just told me? A.—Well I think that holds together.

Q.—Now does not that mean that they are putting here as an asset the obligation of the Canadian Northern Company to pay off those bonds; they are putting the bonds themselves upon the one side as a liability and they are showing as an asset the obligation of the Canadian Northern to pay them off? A.—I don't think so. The obligation is being fulfilled as it goes on and has already been written off, for instance here, "Less retired \$60,000." The Railway Company has already paid in evidently \$60,000 and that amount has been paid on these bonds. The original issue of bonds was the \$1,280,000.

Q.—And the Railway Company are to pay off that \$1,280,000 and interest and when it has done that it will own those assets? A.—Yes.

Q.—In other words when the Railway Company pays \$1,280,000 it will own all the rolling stock covered by the first mortgage bonds? A.—Yes.

Q.—Then is it not just as I have said, the obligation of the Rolling Stock Company to pay those bonds is put as a liability and the obligation of the Canadian Northern to pay them is put as an asset in this balance sheet; isn't that so? Treating these figures, because I want to get the significance of them, isn't that what it means? A.—Not exactly; the asset is the rolling stock itself.

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Q.—But the rolling stock is not worth exactly the sum of the principal and interest? A.—It ought to be.

Q.—It ought to be worth more from what you tell me? A.—If this agreement is correct it would not be right for them to consider as an asset the whole rolling stock.

Q.—Certainly not. A.—Because the railway company have fulfilled part of their obligation.

Q.—Certainly; that is just what I am saying to you. A.—But in the meantime the Rolling Stock Company retains the rolling stock as its assets and property until the last dollar is paid.

Q.—That is what I am saying to you; that asset is the obligation of the Canadian Northern to pay off those bonds, otherwise it is not an asset at all? A.—Yes, plus the property itself.

Q.—But the rolling stock will not belong to them after the bonds are paid off? A.—No, but they have it as security in the meantime.

Q.—Then the asset is the obligation of the company to pay? A.—I take exception to that; that is not my reply.

Q.—Then I do not want it if it is not, certainly. A.—The asset is the rolling stock itself plus the obligation of the railway company to pay the balance on that rolling stock. I think that is correct.

MR. McLAUGHLIN: I can produce the original mortgages between the Imperial Rolling Stock Company and the National Trust Company covering the issue of these bonds.

MR. SHEPLEY: I do not want to get anything down that your mind does not assent to, by any means. It would not be right, and I do not want it. A.—No, I do not believe you do, Mr. Shepley.

Q.—I am trying to get you to look at it as a matter of figures. This is a balance sheet which gives a certain amount of liability on one hand, and assets on the other? A.—Yes.

Q.—And you see that a certain particular item of liability on the one hand is precisely the same as a certain other item called an asset on the other side? A.—Yes.

Q.—The liability is undoubtedly a liability to pay those bonds and interest is it not, for the full amount, the liability of the Rolling Stock Company? A.—Yes, less what has already been paid.

Q.—I am pointing you to the balance, \$1,270,000 plus the interest. Now

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the asset is the right to have someone else pay them? A.—Backed up by the property itself.

Q.—Yes, backed up by the property as security? A.—Allow me to state it in another way, and I think I can make it clear. Take a first mortgage on real estate, if you will allow me. The asset in that case is not the obligation of the borrower only, it is the obligation of the borrower backed up by the real estate that is the security.

Q.—But all you have a right to get out of it is what he owes? A.—Oh, certainly.

Q.—And all you have a right to get out of this asset is the amount that the Canadian Northern ought to pay for those bonds? A.—Yes.

Q.—Then we are at one in principle. Passing on to other assets, I see here, "Rolling stock, series A, \$165,000." What do you conceive that to mean? A.—That is evidently—and I am satisfied on this point—rolling stock that belongs outright to the Imperial Rolling Stock Company which has not been re-sold or re-released, the property of the company outright.

Q.—Which is altogether outside of and not covered by the first mortgage bonds of either series? A.—Yes, that is as I understand it.

Q.—That is what I should understand by it, too. Then when you saw this asset, of course the solvency of the company depends on the existence of that asset? A.—Yes.

Q.—Now what knowledge had you with regard to that? A.—Oh, just the assurance of Mr. Lukes.

Q.—Had you any assurance except seeing it in this statement? A.—Yes, I had. I am satisfied I had at the time or I would not have taken it. I have no distinct recollection of just what words took place.

Q.—I will ask you another question before we pass that. The only other asset is accounts receivable, \$135,000? A.—Yes.

Q.—That is a round sum, what do you take that to be? A.—My recollection of that now is that it was the balance of the capital. They put in the whole authorized capital as a liability, \$300,000. It was all subscribed for, I believe, and only partially paid up; there was a balance of \$135,000 still due on it which was put in here as accounts receivable.

Q.—Then the meaning of it is that unless the shareholders are responsible and unless there is really rolling stock to the extent of \$165,000, that company is paper? A.—Allow me to deal a little further with that item, the

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balance of \$165,000. The \$300,000 is the authorized capital and my understanding was that the subscribed and paid-up capital was \$165,000, and this \$135,000 was not issued, so that the stock that was issued was paid up for in full, paid in cash, and was represented by this \$165,000 of rolling stock which the company owned outright.

Q.—Now with a capital of \$300,000, of course this question of bonds is merely a question of property, is it not, to any business man? A.—Yes.

Q.—Then we can exclude that altogether because the Canadian Northern has got to provide for that, and we will suppose that it does. A.—No, it would not be right to exclude that, because the lease—

Q.—I mean to exclude it on both sides, because they balance each other? A.—They balance each other as far as the asset is concerned, but not so far as the revenue of the company is concerned. That is a different matter, and a very important one as bearing on the value of this stock.

Q.—It increases the force of the contention that I am trying to get you to yield to. I am assuming that the Canadian Northern is perfectly solvent, and performs its whole obligation, and pays every copper of the principal and interest of those bonds. Then if that is so you can eliminate them from both sides of the account? A.—Not at all.

Q.—Why not? A.—Because the leasing of this rolling stock to the Canadian Northern, which is both a lease and a sale at the same time, not only provides for the payment of principal; of the cost of that rolling stock, but a very handsome rental which would, as it was represented to me at the time, represent a dividend on this stock of about 20 per cent. per annum.

Q.—Then if that is so, that is an asset which does not appear in this balance sheet anywhere, isn't that so? A.—Well, it is an asset that is not yet realized.

Q.—It is an asset that does not appear here; isn't that so, if your account of the other assets is correct? A.—Yes, you might put it that way; it is an expected revenue, a revenue certain in fact which does not appear there.

Q.—You told me, you know, and I thought that would be so, but I may be quite wrong about it, because I don't know, you told me that you would gather from this that when the railway company had paid the full principal and interest of those bonds the railway company would be the owner of the

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rolling stock? A.—Yes, and in the meantime while they are paying for it, they are paying a very handsome sum to the rolling stock company for rental for the use of it.

Q.—Then that is an asset that ought to appear in the balance sheet? A.—Yes, where it would appear if at all in the value of this stock.

Q.—Then we will have to revise your definition of rolling stock series A as an asset? A.—No, not that. This is put down merely at its par value, \$300,000. If I were making out that statement I would not have put \$300,000 there. I would have put \$165,000, and I would have left out this other item of \$135,000 of stock which they expect to take up. Then putting the account in that way you have an asset here of \$165,000. Now the real value of that \$165,000 of stock to my mind was probably double that amount, because the terms of the lease to the Canadian Northern are so favorable to the Rolling Stock Company that it makes that stock very valuable.

Q.—I understand all that; that just tends in the same direction I am putting it to you. That means that that is a valuable asset of the Rolling Stock Company, and it would in any proper statement of assets and liabilities find its place if properly measured, if they wanted to show a very favorable statement.

Q.—If they wanted to show the fact; it is not a capital account, it is assets and liabilities.

MR. McLAUGHLIN: If you are paying 5 per cent. on \$100,000 on one side, and getting 7 on the other, you can capitalize the difference.

MR. SHEPLEY: I would rather you did not argue it just now. A.—It increases the market value of the stock, but it would not increase the par value.

Q.—I understand what you mean, and I am content with that. We can draw our own conclusions about it.

Q.—Now take the other, the Canadian Lake and Ocean Navigation Company. This seems to be what you got from Mackenzie & Mann when you asked about that? A.—Yes, this is a longer statement.

Q.—A good deal longer. Let us go through this. It is arranged differently; the assets come first and the liabilities second. What is the "C.O. I.N." Company stock? A.—That was another navigation company which they purchased, 80,000 shares Cana-

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dian Ocean, Inland Navigation Company.

Q.—80,000 shares of that company were purchased by the Navigation Company that we are considering? A.—Yes, for the sum of \$870,000.

Q.—And that is put in as an asset at that sum? A.—Yes. Then they purchased certain steamers.

Q.—Those were not purchased from the old company? A.—No, I believe not. New steamers. The A. E. Ames, J. H. Plummer, and the H. M. Pellett.

Q.—Good familiar names? A.—Yes.

Q.—Perhaps some indication of the composition of this company. Those are put in at \$501,000 odd? A.—Yes.

Q.—Then the C.O.I.N. Company capital expenditure account, improvements to steamers, \$12,000. That would be in respect of vessels which formed part of the property of the company whose stock they had purchased? A.—Yes.

Q.—What is this item, "Instalments on redemption balance \$43,000? A.—I could not explain that just now.

Q.—At all events that makes a total asset to be added to the other of \$55,507. Then there are "sundry debtors, \$4,600." Then average accounts unadjusted, \$13,000. Due by Turret Crown, \$12,800. Due by William Patterson Company, Limited, \$9,000; Due by "William Patterson and or William Patterson, Limited, subject to adjustment, \$48,000. Making a total assets of \$1,515,000 is near enough for our purposes. Then the liabilities? A.—The first is a loan on those three steamers.

Q.—No, the first is the capital stock? A.—Yes, \$1,216,000.

Q.—Then a loan on the three steamers, \$220,000. Due to sundry creditors, \$25,000. Due to Bank of Scotland, \$2,000. Canadian Bank of Commerce, \$21,000. Guarantee and Trusts Society, \$10,000. Operating account, \$12,000. Leaving a Profit and Loss account, an accretion to Profit and Loss account of \$8,000. Now that is not a very large net earning on a capital of \$1,216,000? A.—Well, I understand they are turning in most of their earnings into plant and improvement of plant, and putting everything in first-class condition.

Q.—Putting it into capital? A.—Yes.

Q.—Apparently these items which are being put into capital are items which very largely ought to be paid out of earnings, ought they not? A.—Well,

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I understand that a great deal more has been spent on steamers and docks and one thing and another then appears there.

Q.—For instance, the average account. Accounts for average in the course of the year's business, that ought to come out of the yearly expenditure, ought it not, in any properly regulated company? A.—Well, it would depend a good deal on how it arose and just what the adjustments were.

Q.—If instead of paying those out of expenditure you charged them to capital, you charge them to annual income and destroy your Profit and Loss accretion, don't you? A.—Yes, you would, but if they were making the steamers more valuable, in that way it is a proper charge to capital account.

Q.—Then apparently you have a Profit and Loss account and an Operating account. The Operating account for the other Company I suppose that is in respect of the stock which is owned in the other Company and that seems not to be improper at all. Then we have a Revenue account for both Companies. That at all events was the information you had with regard to these Companies so far as the writings show at the time of the substituting of these securities? A.—Yes.

MR. McLAUGHLIN: I have got the Union Bank book and the Standard Bank file.

MR. SHEPLEY: On the 2nd of December, 1901, your Company borrowed or acknowledged to have received from the Standard Bank \$228,606.58 on the security of certain debentures and stocks which are endorsed on the back of the hypothecation? A.—That first is the interest notice showing the rate of interest to be 4 per cent or raising it from 4 to 4½.

Q.—Then it is raised to 5? A.—Yes.

Q.—It is raised to 5 per cent in May, 1903. Apparently there was only one hypothecation covering the whole thing. It varied from \$200,000; the three next notices are \$235,000. Then in August of 1902 you borrowed another \$100,000. This is the agreement: "In confirmation of the verbal arrangement made with your manager I apply for a further loan of \$100,000, the amount to be taken out by cheques from time to time in the next few days. This to be a further loan on the security of the bonds and debentures belonging to us which you now hold. The amount to be on call and bear interest at 4½ per cent." Then

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on the 20th August "We require an additional loan of \$12,000 which will be a further loan on the security of the bonds and debentures belonging to us and which you hold. This amount to be on call and bear interest at 4½ per cent." Then in September they raised the interest to 5½ and in October, 1902, to 6, and on the 1st December you increased the call loan by another \$100,000? A.—Yes, in the meantime if I remember rightly we had repaid sums. The loan was changing according as we had funds.

Q.—It had got down to \$174,000 and you raised it to \$274,000? A.—Yes. Then afterwards it was reduced to 149.

Q.—That was on the 26th December it was 149,000 as we find in the minutes? A.—Yes.

Q.—And then on the 2nd January it was \$150,000? A.—Yes. That was a new loan.

Q.—On the 8th January you increased it by \$20,000. On the 2nd January there is another hypothecation note for \$150,000 with certain securities endorsed and in April they raised your interest. Then you were running the loan off and in May it had got down to \$10,000 and apparently then it disappeared? A.—Yes.

Q.—May, 1903? Then we have the history of that. You were quite right in saying that you went through the form of paying off the loan at the end of 1902 and making a new borrowing on the 2nd January to the same extent or a little more? A.—It was more than a form. We actually did pay it off in cash.

Q.—Returning to the Rolling Stock Company for a moment. You conceived the \$155,000 to be so to speak a present value or a commutation value placed upon the rights that they had under their lease over and above the payment off of these bonds? A.—No, I considered that \$165,000 in the liabilities as representing—

Q.—In the assets? A.—I considered that as representing the actual Rolling stock owned by the Company.

Q.—That is what you said first, but it agrees exactly with what has been paid on the capital stock? A.—Yes, because when they pay in on capital stock they buy rolling stock with it.

Q.—You do not think it has any reference to the other asset of which you spoke? A.—Oh, no, I was referring to an extra.

Q.—That is an asset which does not appear in this statement? A.—Yes.

(Adjourned to 2 p. m.)

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AFTERNOON SESSION.

Resumed at 2 p.m., April 27th, 1906.
Examination of Mr. Junkin continued.

MR. SHEPLEY: Q.—We will pass to another matter. Who customarily acted as brokers for your company in the purchase and sale of stock? A.—Pellatt & Pellatt.

Q.—The senior member of that firm was the same Pellatt that was your Vice-President? A.—Yes.

Q.—Had you any written contract with the Pellatt firm upon the subject of buying and selling stocks? A.—No.

Q.—Had you an arrangement with them which is noted in any of the minutes of your Board or of any of your Committees? A.—No.

Q.—Who made the arrangement that was made with them under which they did these transactions? A.—There never was any arrangement made. We paid them the usual brokerages according to the rules of the Exchange.

Q.—Who decided what stocks they should buy and what stocks they should sell? A.—Either the Board or the Finance Committee.

Mr. Pellatt was a member of the Finance Committee as well as of the Board? A.—Yes.

Q.—What was his position in the Finance Committee? A.—He was Chairman of it.

Q.—Did you sometimes buy and sell to Pellatt & Pellatt? A.—No.

Q.—You never bought from them? A.—No, I don't think we ever bought anything from Pellatt & Pellatt.

Q.—I think I shall be able to show you in your minutes that they have offered you blocks of stock for sale which you have accepted; however, we will pass that over. You think you did not either sell or purchase from them stocks or from Mr. Pellatt? A.—We purchased bonds from them, but I do not remember purchasing any stocks from them.

Q.—You make a distinction between bonds and stocks? A.—Yes.

Q.—What about the moneys to finance the transactions that Pellatt & Pellatt engaged in for you? A.—As a usual thing when the company was in funds we would sell them the usual broker's note and we would send them a cheque.

Q.—As a usual thing is that what you would do? A.—Yes, when we were in funds.

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Q.—Were you ever in funds? A.—Yes, very often, generally.

Q.—It was a frequent thing you were in funds? A.—Yes.

Q.—Would you say generally? A.—Yes.

Q.—I have been furnished with what purports to be a copy of Mr. Pellatt's firm's account; it commences in September, 1901, and it runs down to February, 1905; has his firm ceased to act for you since then or is this just a portion of the account? A.—It may be that we have had no dealings through them since the first of the year.

Q.—Since the first of 1905? A.—I have not seen that statement before.

Q.—It purports to be a copy of the Manufacturers' account in the books of Pellatt & Pellatt; you have had transactions with them during 1905, of course? A.—Yes.

Q.—Then this, I should conclude, was probably a partial account; in the earlier history of the transactions there seems to have been something that would corroborate what you have just stated, the first transaction of all appears to be a transaction in Toronto Railway; you see that, do you? A.—Yes.

Q.—On the 6th September, 1901, and also a transaction in Toronto Electric Light? A.—Yes, 25 shares.

Q.—And again on the 9th September, 25 shares, a small sum? A.—Yes.

Q.—For which apparently on that day getting, I suppose, a brokerage note; you paid for the three transactions? A.—Yes.

Q.—Following on, I see that on the 16th May, 1902, we have a transaction which reads, "By cheque, \$30,000," you would have handed them your cheque for \$30,000, I suppose? A.—Yes.

Q.—And then on the 19th they charge you with 500 Canadian Pacific and with 255 Cable? A.—Yes.

Q.—Leaving you indebted to them to the extent of \$74,968.75, according to the account; I suppose you have not any independent recollection of the transactions? A.—No.

Q.—You do not remember when you first commenced to deal in Canadian Pacific? A.—No.

Q.—Or in Cable? A.—No.

Q.—That remained a debit balance fluctuating somewhat, you paying sometimes apparently on account, and there being another large transaction in Cable for you, until on the 13th June you balanced that off with a cheque? A.—Yes.

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Q.—Then I see charges running through this account for interest, that would be on a debit balance you owed on his transactions for you? A.—Yes.

Q.—Then the next balancing does not seem to have taken place till the 1st August? A.—Yes.

Q.—What was that item? A.—That last purchase?

Q.—Yes? A.—It was evidently a sale of 500 shares of C.P.R. and 50 shares of Commercial Cable, which was sold and the proceeds placed to the credit of our account.

Q.—The next balancing as far as this account shows after the 13th June was on the 1st August, when it was balanced by his selling some Canadian Pacific stock and some Cable stock and putting the proceeds to your credit? A.—Yes.

Q.—That seems to have been a transaction which just resulted in paying the interest account in addition to what you owed him for advances? A.—The interest would be carried down to that date, I suppose.

Q.—Would a cheque pass for the difference? A.—This balance carried out here is fifty-six thousand, sixty-one thousand there, and we paid a cheque of five thousand, and the proceeds of the sale seems to have been \$56,101.27.

Q.—And that seems to have left when that was put to your credit just the amount of the interest account; it is not very important just now? A.—I do not understand just exactly how it is.

Q.—In August he seems to have certain large transactions for you, leaving you at one time his debtor to the extent of \$41,000, and that apparently was also closed by a sale of Cable, you see that? A.—Yes.

Q.—Then we go down to September 30th, you see there an item "To 400 C.P.R."? A.—Excuse me for going back; I see this was a cheque; that is how that comes to balance exactly. The transaction was closed by a cheque, this \$56,102, I did not notice these ditto marks, that was a cheque to balance off that account.

Q.—Why is that description put in the entry, 500 C. P. R. and 50 Cable; what relation has that to your cheque? A.—That would be evidently the purchases that this cheque was considered as being payment of.

Q.—That is the 500 C. P. R. and 50 Cable on the 21st and 28th July? A.—Yes, in fact they were the only purchases since the last settlement, that is the idea, it was in final settle-

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ment and adjusting the account on those purchases.

Q.—There seems to have been interest entered into as well? A.—Yes.

Q.—When did you begin, if you did begin, to give him security when you gave him orders to buy? A.—If we did not pay outright for the security he was purchasing he would retain the whole or part of it until receiving our final cheque.

Q.—Did you ever support the transaction by other securities which you had at your disposal, depositing those with him? A.—Yes, shortly after this date we are dealing with.

Q.—How long did that course of dealing continue—all through, that is the course of dealing, giving him securities, pledging securities to him, permitting him to handle those securities as a means— A.—No, just in connection with two transactions.

Q.—That only happened in the case of two transactions? A.—Yes.

Q.—What transactions were those? A.—Dominion Steel and Dominion Coal purchase.

Q.—Are those the purchases in respect to which the matter that was disclosed in the Department took place? A.—Originated, yes.

Q.—Had this purchase of Canadian Pacific on the 30th September, 1902, anything to do with it? A.—No, I believe not.

Q.—Directly or indirectly? A.—What was the amount?

Q.—400; first perhaps so that we may be in a position to appreciate what was stated in the Departmental records about it we will just refer to this; this departmental report commences, "In the list of mortgages is one made by Mr. Pellatt upon which there was due at the end of the year \$103,300. It is the result of stock transactions. It appears that the company purchased through Pellatt & Pellatt acting in their capacity as brokers one thousand shares C.P.R. which were paid for by the company in instalments—what do you say as to that as a statement of fact, is that accurate? A.—No.

Q.—What is the true state of facts as to the origin of this transaction? A.—Colonel Pellatt as Chairman of the Finance Committee at the time had referred to the matter of Dominion Steel stock a number of times as in his opinion a very profitable investment, stock that had been selling up to about 79½ in August of that year, and at that time in October was

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about 60, and in his opinion would shortly go back to par again.

Q.—Was it a dividend paying stock? A.—No.

Q.—Was it a stock you were authorized to invest in under the statute? A.—No.

Q.—Was it a stock, are you aware, that he himself was dealing in in July? A.—I could not say July, I understood he was a stockholder of the company to a substantial amount.

Q.—Did you understand he was buying and selling stock of that company? A.—For himself?

Q.—Yes? A.—No, I did not understand that.

Q.—Or for any syndicate of which he was a member? A.—No, I did not understand that.

Q.—You did not understand, I don't know exactly what word to use, that he was investing, re-investing and buying and selling the stock as part of his business as a stockdealer? A.—I simply understood he was buying and selling as a broker for others, for the general public, any clients that would come to him and give an order in the usual way.

Q.—And you understood him to be a large stockholder? A.—Yes, a stockholder for a substantial amount, I had no idea for what amount.

Q.—You do not know whether he had with those associated with him control of the stock or not? A.—No.

Q.—But you do know these facts, he was a stockholder to a substantial amount, buying and selling stock for others, and you have told us it was he who suggested this investment? A.—Yes.

Q.—Then what? A.—At the beginning I hesitated about the purchase on account of it not being a dividend paying stock, but Colonel Pellatt seemed so confident of the ultimate issue that we finally decided to buy it. In fact Colonel Pellatt said, "I will see that the company does not make any loss on it," or something to that effect.

Q.—He said he would see the company did not make any loss on it? A.—Yes, he felt so confident of the outcome of the transaction.

Q.—Can you point in this list of stocks to that particular item of stock, the first stock that was purchased upon the strength of what took place at that meeting? A.—No, I don't think it will be in that list at all.

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Q.—Why? A.—Because immediately after the purchase it began going down, and the usual custom was in a case of this kind where we purchased any stock to report it to the next meeting of the Finance Committee.

Q.—What year was that in, 1902? A.—Yes, 1902.

Q.—In what month? A.—The month of October.

Q.—Can we between us identify it in this account of Mr. Pellatt's—I see on the 6th October the first entry of that kind is 500 Dominion Steel? A.—Yes, that would be it.

Q.—On the same date 200 Dominion Steel? A.—Yes, and on the 8th 300.

Q.—And on the 10th 300 which is marked "delivered"—what does that mean? A.—That does not seem the correct amount, there were only 1,000 shares altogether.

Q.—Then it says 300 delivered? A.—That would be the same 300; that is merely a memorandum, as I understand it, of delivery.

Q.—It is not carried out at all? A.—No.

Q.—You are probably right; then it does agree, that would be the 1,000 shares? A.—Yes.

Q.—500 on 6th, 200 on the 7th and 300 on the 8th? A.—Yes.

Q.—And that in addition to what you owed him on the purchase of the 400 Canadian Pacific left you his debtors to the extent of \$102,000? A.—Yes.

Q.—Then you say the stock commenced to go down, why would not it appear in your securities? A.—After it began going down we did not report it to the Finance Committee, and thinking that it would right itself in a short time again.

Q.—Who did not report it? A.—Colonel Pellatt and myself.

Q.—Colonel Pellatt and yourself did not report to the Finance Committee even the fact that you had purchased? A.—No.

Q.—Is not there a minute of the discussion that took place when you authorized him to buy? A.—No, as a matter of fact it did not come before the Finance Committee at all.

Q.—Where was the proposal made, just to you? A.—Yes. I used to drop in—Colonel Pellatt as you understand it was Chairman of the Finance Committee, and I was a member of the Finance Committee myself; the Committee was only a small one, and naturally I would discuss the invest-

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ments almost every day with Colonel Pellatt.

Q.—I can understand you discussing investments you had and were anxious about, but I cannot understand you and he without going to the Finance Committee authorizing any transactions in investments—you had told me that he took his instructions from the Finance Committee of which he was Chairman—when you met him in his office you were not holding a meeting of the Finance Committee? A.—No, but as a matter of fact we often do purchase securities trusting to them being approved by the Committee afterwards. I have gone so far as to purchase securities myself that I felt absolutely sure would meet with every member.

Q.—Has Pellatt done the same thing? A.—No, Pellatt has never done that.

Q.—He never purchased without instructions from whom, from you? A.—Yes.

Q.—He would purchase on your instructions or after consulting with you and without going to the Finance Committee if he thought proper? A.—Yes.

Q.—And if you thought proper? A.—Yes.

Q.—That is what you did? A.—Yes.

Q.—On this particular occasion you and he had a casual meeting in his office, or a meeting brought about in some fashion, and came to the conclusion you would buy 1,000 shares of Dominion Steel, knowing it was an unauthorized investment, and the opinion that it was a good investment being his? A.—Yes, all through our anxiety to make money for the company.

Q.—We will assume that until the contrary is shown you were anxious to make money for your company. Then upon that he went and expended this large sum of money in the purchase of these shares; was the Dominion Coal bought the same way? A.—Not just then, later.

Q.—At all events he went off with such authorization as your conversation had given him, without any authority from the Finance Committee, and he purchased these 1,000 shares, and he charged the purchase money to the account of the company, that is right? A.—Yes.

Q.—And having done so you of course were aware of it? A.—Yes.

Q.—Did he write you a letter or send you a broker's note or anything of that kind? A.—Yes, he sent us the usual broker's note.

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Q.—That did not find its way before the Finance Committee? A.—No.

Q.—What did you do with it? A.—It is in the files of the Company's still I presume.

Q.—At all events you did not bring it before the authorities at all? A.—No.

Q.—Because in the meantime the chances for the stock, or the stock itself was dropping? A.—Yes.

Q.—Did you and Mr. Pellatt discuss the desirability of keeping that out of the minutes for the present? A.—After a few days, I don't know just how long, I intimated to Colonel Pellatt that he would have to make his statement good and assume the loss himself, and he agreed to do so.

Q.—When would that be? A.—I think it was probably two or three weeks afterwards.

Q.—And all the time the stock dropping? A.—The stock dropping all the time.

Q.—Did you bring that before the Board at all at that time? A.—No.

Q.—This is the statement that is made in the departmental report. I have read you down to the place where it states that Pellatt & Pellatt had purchased 1,000 shares of C. P. R. stock which the Company had paid for in instalments, that you say is incorrect? A.—Yes.

Q.—“Pellatt & Pellatt, however hypothecated the stock in certain banks,” etc. (Reads down to “\$101,800”—is that right? A.—The fact that he had the thousand shares of C. P. R. is right, and that it was hypothecated for \$101,800, and it came about in this way—

Q.—How did he come to have the thousand shares of C. P. R.? A.—When we could not pay for this stock with the company funds—

Q.—Which stock? A.—The Steel stock after it was purchased, the company if my recollection serves me were not in funds at the time, and we gave him 400 shares of Commercial Cable on which to get a loan from the bank to carry this Steel stock.

Q.—When you say we whom do you mean, Mr. Junkin and Mr. Pellatt? A.—Well, Mr. Junkin you might say, myself.

Q.—Was the Board consulted about that? A.—No.

Q.—Pellatt had bought the stock? A.—For the company.

Q.—Upon your instructions or his own and yours? A.—And delivered us the regular broker's note and the stock.

Q.—He delivered 300 shares of the stock? A.—Before he received the

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Cable he delivered it all. He delivered the 300 on that particular day, I think that was the balance of it, I don't know why that is put in that way, but he delivered the whole thousand shares at that time.

Q.—It seems according to this that he delivered the other 700 on the 13th October, having received the 200 of Cable on the 10th? A.—Then he received 200 more Cable, he received 400 Cable altogether.

Q.—He received another 375 of Cable on the 13th also? A.—I think perhaps he was selling Cable at the time, some of that was probably sold.

Q.—This does not alter the account at all, just a note of its being received or delivered as the case may be? A.—I cannot speak for his books, but my recollection is he received 400 share of Commercial Cable for the purpose of carrying this Steel stock of the company.

Q.—What was that about the thousand shares of C. P. R. because you told me first he had 1,000 shares of C. P. R. which he had hypothecated? A.—Later on to help to improve the Steel transaction we decided to buy 400 Coal to be placed with the same account, and in the meantime Colonel Pellatt had sold for the company the Commercial Cable and paid the company for it, and when he sold the Cable we gave him C. P. R. to take its place, 600 shares of C. P. R. to take the place of the Cable, for the same purpose, for carrying the Steel.

Q.—What became of the proceeds of the Cable? A.—It was paid the company.

Q.—Or credited the company? A.—Either one, it might possibly be credited.

Q.—Let us see where we find those transactions here; in the first place you say he had sold the 400 Cable? A.—Yes.

Q.—And the company had got the benefit of that either in account or by cash? A.—Yes.

Q.—And then you required to substitute some other security to improve the position of the unauthorized investment? A.—Yes.

Q.—And you gave him 600 shares of C. P. R.— A.—Yes, to take the place of the Cable, to carry the Steel.

Q.—When you say to carry the Steel what was he to do with it? A.—To pay for the Steel, I should say instead of carry the Steel; the Steel was in the vaults of the company all this time.

Q.—In the vaults of the Manufacturers' Company? A.—Yes.

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Q.—Having been delivered on the 10th and 13th as you say? A.—Yes.

Q.—Who was it that authorized the sale of the Cable? A.—It was authorized in the regular way by the Board just in the usual order of business.

Q.—Did the Board apart from Mr. Pellatt and yourself, know that the Cable was there supporting this unauthorized transaction? A.—No.

Q.—The Board just supposed this was an ordinary sale of the security of the company, the Cable stock? A.—So it was, the sale had really nothing to do, it might have been any security that was handed to Pellatt—

Q.—They did not know it was standing there to support that transaction as a matter of fact? A.—No.

Q.—That was confined to the bosoms of Mr. Pellatt and yourself? A.—The reason we were selling the Cable, I might explain there was some doubt as to whether it came within the Insurance Act.

Q.—That was the reason perhaps you wanted to buy Dominion Coal? A.—No, I have already explained our reason for that, it was our anxiety to make money.

Q.—Your anxiety to make an authorized investment is counter-balanced by your anxiety to make an unauthorized investment; at all events you were quite aware that when you purchased the coal or authorized Mr. Pellatt to purchase the Coal, keeping a knowledge of that transaction to your two selves, you were doing what the Act did not permit? A.—Yes.

Q.—And the fact that you bushed the transaction with the C. P. R. stock was also kept within the knowledge of yourself and Mr. Pellatt I suppose? A.—Yes.

Q.—Show me where the C. P. R. comes in, see how long afterwards that was? A.—The first C. P. R. would come in when the purchase of the Coal was made in the meantime, 400 shares of Coal were purchased. Here is 175 Coal, and there is 125 Coal.

Q.—No; that 175 is the first purchase of Coal, and then there is 200 here, on the 11th November? A.—No, that would not be the same, that was a purchase that was made in the regular way; it was probably later.

Q.—There is 100, and there is another 100; well, none of these transactions appear in the list of your securities furnished to us? A.—The Steel and Coal do not, all the others do.

Q.—The Cable and the C. P. R. do? A.—Yes.

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Q.—About how long afterwards was it, see if we can find it, was it as late as 1903?

MR. McLAUGHLIN: The Coal was purchased March 30th, 1903.

MR. SHEPLEY: On the 30th March, 1903, there is this entry. "400 Coal delivered, and received 400 C. P. R.?" A.—That is it.

Q.—That was months after the transaction? A.—Yes, it was bought to help the Steel out.

Q.—It was a long time before that that you had sold the Cable, was it not—when did you sell the Cable?

MR. McLAUGHLIN: It was authorized December 2nd, 1902.

MR. SHEPLEY: Q.—You sold the Cable in December, and you did not give him the C. P. R. till March? A.—When the Cable was sold we gave him 100 C. P. R. to take the place of the Cable, and when the Coal was purchased we gave him 400 C. P. R. to take the place of the Coal.

Q.—That made the whole 1000 C. P. R.? A.—Yes.

Q.—Then it was true, you say, the thousand shares were hypothecated? A.—Yes.

Q.—And they were hypothecated to the tune of \$101,800? A.—Yes; the price of the Steel and Coal.

Q.—Was that the price of the Steel and Coal? A.—Exactly; the account I presume will show it here.

Q.—I am accepting that for the present; a bank had loaned \$101,800 to purchase the Coal stock and the Steel stock, and they held to secure indebtedness so created a thousand shares of Canadian Pacific in the result? A.—Yes.

Q.—That was the transaction as it stood after the end of March, 1903? A.—Yes.

Q.—When the matter had got into that position was there any report made to the Board or the Finance Committee? A.—No.

Q.—How long afterwards was it before that transaction was brought to the knowledge of those for whom the transaction had been entered into? A.—It was along about September I think.

Q.—What was the occasion of it being brought up or reported? A.—In the meantime Coal had started going down in the same way that Steel had, the loss was getting heavier all the time, until finally Colonel Pellatt and myself decided that he must fulfil his pledge originally and take it up, assume the loss himself and take over the Steel—

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Q.—You had told him that away back in October? A.—Yes.

Q.—Before you did all this with the supplementary stocks, and authorized him to buy Coal, you had called a halt then? A.—Yes.

Q.—Why did you not insist upon having it done then? A.—It was just deferred from time to time, taking definite action, thinking that these might possibly come back again.

Q.—It was the old instinct, you and Mr. Pellatt were hoping that these stocks would recover? A.—Yes.

Q.—And in the meantime say nothing about it? A.—Yes.

Q.—And in the meantime handing over the property of the company to be used for the purpose of holding the transaction? A.—Yes, and the Steel and Coal stocks in our possession in the meantime.

Q.—Without the knowledge of your Board? A.—Yes.

Q.—In September you say you and Mr. Pellatt came to the conclusion it was about time he did carry out his bargain? A.—Yes.

Q.—What progress did you make that year? A.—He said he would do so and asked us to make a loan on other securities to help him carry the matter out.

Q.—Was anything done that year, 1903, at all beyond promising? A.—Yes, I think so.

Q.—What was done? A.—He took up the Coal and Steel and paid for it, and we made him a loan on his property at the Beach valued at \$46,000, and on the thousand shares of Steel, and 400 shares of Coal, and 500 shares of Mexican stock, made the amount of the exact amount of \$101,800 which he has since paid off in full with interest at five per cent. I think that was all in October, 1903.

Q.—On the 14th October, 1903, there was a meeting of the Finance Committee with Mason in the Chair, Wood, Patterson, Beatty and yourself present; you made a report which commences in this way: "The Managing Director reported that the company had purchased through Messrs. Pellatt & Pellatt, acting in their capacity as brokers, 1,000 shares of C. P. R., which had been paid for in instalments from time to time, and that when the last instalment was made the brokers were unable to deliver the stock, it being hypothecated to certain banks, the amount required for the release of the same being \$101,800"—was that a true report? A.—

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Only in essence, the fact that he had 1,000 shares of our C.P.R. was correct, and the fact that he owed us \$101,800, that was correct; the rest was not really correct.

Q.—When I asked you a while ago when you first made the transaction that you and Mr. Pellatt had put your heads together to carry out you told me that you thought that was in September. I suppose you were referring to this, were you? A.—Yes sir.

Q.—There is not a word about any unauthorized dealings with stock, with Coal and Steel, was it still concealed from the Finance Committee? A.—Yes, the fact that Colonel Pellatt was assuming the loss which was at that time about \$75,000, and taking these securities back we thought it was not necessary to report the matter at all.

Q.—You thought it was not necessary to report what the transaction really had been, and it would do if you stated that this had occurred by reason of Colonel Pellatt hypothecating an authorized investment? A.—Yes.

Q.—Instead of it having arisen as it did by virtue of you and he having made unauthorized investments? A.—Yes.

Q.—Who drew this resolution, did you? A.—I could not say. I gave the substance of it, I am responsible for it.

Q.—That \$101,800 had to be paid of course to get rid of the hypothecation? A.—Yes.

Q.—And that hypothecation being for the sum which the unauthorized stock had cost? A.—Yes.

Q.—Your resolution for which you are responsible goes on to say, "Though not in a position to pay cash for the release of the said stock Pellatt & Pellatt offered to give the company the following security for the indebtedness" did you have any discussion with Mr. Pellatt as to his financial position at this time? A.—It was a period of great financial stress, if you will remember, in the summer and autumn of that year, and money was very scarce with the banks and other financial institutions, and it was difficult to get loans from any source and it was perhaps putting it a little too strong in the minute to say Colonel Pellatt was not in a financial position to pay off the loan, but it was certainly not convenient for him as I understood it, it would be very inconvenient.

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Q.—Did he give you to understand that his own stock transactions had been disastrous? A.—He gave me to understand he was carrying a great many thousand shares of stock for various clients, as all large brokers' firms were at that time on which the margins had gone down to a very small item, and in some cases in fact there were no margins at all, where the brokers at that time were carrying stocks in very large amounts for clients, where the clients owed them large amounts of money.

Q.—That I can understand, but I asked you whether Colonel Pellatt stated to you at that time that his own transactions, I won't call them speculations, his own transactions in stocks had been disastrous? A.—Yes I think he gave me to understand that some of his transactions had resulted as those of his client's had.

Q.—He was willing to give you the following security, he had certain real estate, what was the value of that, about? A.—\$46,000.

Q.—Then he was willing to give you security, 1,000 shares of Dominion Steel, what thousand shares was that? A.—This would be the same thousand, which was becoming his property because he was taking it off the hands of the company.

Q.—400 shares of Dominion Coal, that would be the same 400 shares? A.—Yes.

Q.—And 500 shares of Mexican Light & Power? A.—Yes.

Q.—And his equity in a thousand shares of the Manufacturers' Life? A.—Yes.

Q.—That was your company? A.—Yes.

Q.—Your motion goes on: "It was resolved that a mortgage be taken on the said property for two years for \$126,800 at 5 per cent. per annum with the above mentioned stocks as collateral security, as this was considered more satisfactory than leaving the matter in the present uncertain state." The amount required to pay was \$101,800 according to the first part of the resolution, what was the difference of \$25,000? A.—The difference was the loan against the Manufacturers' Life stock, we thought we were improving our position by paying off that loan of \$25,000.

Q.—Where was that loan? A.—The Canada Life I believe.

Q.—The Canada Life had loaned him \$25,000 on these thousand shares in your company, and that you thought would be improved by your paying it

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off? A.—Yes, would improve our security.

Q.—And then you would have the first lien upon his? A.—Yes, we considered the stock worth \$45,000.

Q.—I understand you to say at that meeting the reality of the transaction was not disclosed? A.—No.

Q.—On the 26th Patterson moved—I do not see that Mr. Pellatt was there—seconded by Mason, That whereas the company heretofore (Reads resolution)—that is I suppose just copied from your resolution at the previous meeting? A.—Yes.

Q.—Did you draw this resolution too? A.—It is really a copy of the other.

Q.—Whereas Pellatt & Pellatt did in such capacity as brokers hypothecate the said stocks," etc. (Reads) "Whereas the sum of \$101,800 is required," etc. (Reads) "And whereas Colonel Pellatt," etc. (Reads down to the words "Repaid by him to the company"). Then comes this mortgage upon his Scarboro Beach property, the transfer to the company of the thousand shares of Steel, 400 shares of Coal, 500 shares Mexican, and his equity in a thousand Manufacturers'. "Resolved that this company release," etc. (Reads) (Reads down to the words "The following Committee"). Then there is a footnote: "This action was taken," etc. (Reads). Is that letter in the departmental file, do you know? A.—I don't know.

Q.—I don't think it is; did the solicitors prepare this resolution? A.—I am not sure about that.

Q.—Who brought it to the meeting, or who sent it to the meeting, did Colonel Pellatt? A.—No, Colonel Pellatt never saw it for several months afterwards; I don't know that he has ever seen it yet.

Q.—Who had arranged this with him, you? A.—Yes.

Q.—Without the intervention of any of the other members of the Board? A.—Yes.

Q.—You had arranged it with him and you had taken the opinion of the solicitor, had you? A.—I think I had.

Q.—What did you want the opinion of the solicitor for, it was all you could get? A.—Yes.

Q.—What did you want the opinion of the solicitor for? A.—We very often consulted them about important minutes.

Q.—Do you remember what you consulted him for on this particular occasion, what did you want to know from the solicitor? A.—To the legality of taking these securities some of which

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were unauthorized, and for the payment already due the company. I recognized it would not be legal to make the loan on those securities in the ordinary way, but here was a debt now due the company since Colonel Pellatt had assumed these stocks, and it was on that point.

MR. SHEPLEY: It would be convenient to have it understood that the minutes are all in. Of course there will be a great deal of them we will not want to refer to at all, but it will be well to keep them together.

JUDGE MacTAVISH: These copies are supplied by the company.

MR. SHEPLEY: Q.—The transaction was carried out in that way, was it? A.—Yes.

Q.—And I see there was a provision by which there could only be a sale below par of these collateral stocks by the consent of a Committee that was named in the resolution? A.—Yes.

Q.—And there was something too about not registering the mortgage? A.—Yes, it was to be left to the Committee as to whether it would be registered or not.

Q.—The property was not property that stood in his name? A.—No, it stood in Mrs. Pellatt's name.

Q.—And you say it was valued at about \$46,000? A.—Yes.

Q.—When was the transaction finally carried out, reduced into the shape of a mortgage? A.—Immediately after that resolution.

Q.—Before the end of the year? A.—Yes.

Q.—And when the Department found this mortgage and the peculiar provision of it among your documents an explanation was asked the following spring? A.—Yes.

Q.—And you explained to the Department in the terms of the resolution? A.—Yes, I just showed him the minute book.

Q.—You did not tell the Department what the real transaction had been from the beginning? A.—No.

Q.—And you never told anybody until to-day? A.—Of course it came out at Ottawa, when the matter came out at Ottawa I explained to some of our directors.

Q.—At that time; of course at Ottawa the true facts did not come out? A.—No.

Q.—Because we were examining the records of the Department? A.—Yes.

Q.—What has been the history, because that is a fair thing to ask, of the transaction since the mortgage was

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given? A.—The interest has been regularly paid, the loan has been paid off in instalments. There was \$30,000 paid in 1905, and \$25,000 was paid in January last, and the balance I think in March.

Q.—So that it has all now been paid off? A.—Every dollar with interest.

Q.—Has it been paid off by raising money from you on other securities? A.—Not a dollar.

Q.—It has not been paid off by your giving him any of your securities to raise it with? A.—None whatever, paid by a straight cheque every time.

Q.—Coming back to your transaction with Mr. Pellatt, or Mr. Pellatt's firm, you say that there were no occasions in the course of his brokerage for you upon which you gave him a margin either in cash or security to deal with except these two cases? A.—That is all.

Q.—Dominion Coal or Steel? A.—That is all.

Q.—I don't know whether you are broker enough to answer the question, but that is equivalent to dealing on margins, is it not, handing over securities to be used in purchasing stock? A.—No, I don't think so. Dealing in margins you are running the risk of having your stock sold out if you are not able to keep your margins good.

Q.—Your transactions through Pellatt & Pellatt apart from the ones we have been investigating seem to have been very numerous, almost daily I was going to say, in the last three years? A.—They are our brokers, they do almost all our brokerage business, that is in stock that is listed and can be dealt with on the Exchange; of course it has to be bought on the Exchange, and some broker must buy it; that is the only way of buying it, and even many of the unlisted stocks it is the best way of buying.

Q.—I suppose you would answer me as you did this morning if I asked you whether it ever occurred to you to question the propriety of the Vice-President of this Company getting a commission on transactions he carried through for the company, you would answer me perhaps you did not see anything wrong about it? A.—If it were wrong it would be wrong for our agents who were stockholders to take commission on the business they sent us.

Q.—There is a difference between a stockholder and Vice-President, a paid servant; at all events you would give

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me the same answer you gave this morning? A.—Yes.

Q.—It never occurred to you to argue that out as a matter of propriety? A.—No.

Q.—Could you tell me about what the commissions on these enormous transactions running for the last three years would amount to? A.—I have not the faintest idea.

Q.—That is the usual commission that any broker would charge? A.—Yes, they must charge the usual commission, they are not allowed to make any rebates of any kind, they would run the risk of being expelled from the Exchange.

Q.—Did you consider at the time that the mortgage was given and the collateral securities with it in the way you have stated in October, 1903, that the debt was amply secured? A.—Yes, we did.

Q.—Was not the loss which Colonel Pellatt made good on this occasion some \$79,000? A.—It would be somewhere between seventy and eighty thousand dollars. I never figured it out exactly. It would depend on what date you took the market value of the stocks; it was certainly not less than \$70,000.

Q.—Did he make the whole of the loss good? A.—Every dollar.

Q.—You did not help him? A.—No, because he practically guaranteed the stock at the beginning, he acknowledged that himself, that he was responsible for urging the investment on me.

Q.—Did Colonel Pellatt make any use of the thousand dollars of C.P.R. stock which he was not authorized, so far as you could authorize him, to make use of? A.—None whatever so far as I am aware; it was a pledge simply for the cost of the Steel and Coal, \$101,800.

Q.—Is it true to say that this stock had been hypothecated by him with certain banks for a purpose other than that for which it had been delivered to him, in such a way that he could not get it back, that is the C.P.R. stock? A.—No, they were hypothecated for the purpose of paying for the Coal and Steel.

Q.—That was the purpose for which you had given them to him? A.—Yes.

Q.—So that he was doing with them what you intended him to do? A.—Yes.

Q.—If you had a right to give him those instructions he followed your instructions? A.—Yes.

Q.—And did not misapply? A.—No.

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Q.—Apart from having agreed with you that he would make it good, had Mr. Pellatt anything to do with the preparation of the resolutions or either of them that were submitted to your Finance Committee? A.—No, he had no idea what the resolutions were; what was understood was it was not necessary for me to report this purchase now that he was assuming the loss himself.

Q.—But he had not anything to do with the actual production of the resolutions? A.—No.

Q.—Did he know in what way the resolution would direct that to be carried out, had that been discussed, the method by which the thing should be carried out, was that discussed between you? A.—No, do you mean with regard to the loan?

Q.—The mortgage and collaterals? A.—Oh yes.

Q.—Did he know — you have said that you and he agreed together it would not as you thought be necessary now he was assuming the loss to state the unauthorized transaction, did he know the way in which you were going to put it? A.—No, except I would not refer to Coal and Steel as they were now becoming his property, and as they never had been in reality the property of the company in the sense that they had never been approved by the company.

Q.—Did he know of the form in which the resolution was drawn till afterwards? A.—No.

Q.—And how long afterwards? A.—I don't think he knew till it came out at Ottawa, in fact I am certain he did not.

MR. BLAKE: If Your Honors would allow me, the reason I have asked Mr. Shepley to be good enough to ask these questions is that I represent Sir Henry Pellatt here, and it is true he has done wrong in the way that has been presented, but he did not do what is mentioned in that resolution, and he made all the reparation he could in his power, as he undertook to do when these transactions were entered into by paying the whole loss up to the \$79,000.

MR. TILLEY: At the time that the Insurance Department at Ottawa discovered these irregular transactions the Prudential Securities Company, Limited, was formed? A.—Yes, shortly after.

Q.—And it was formed just by reason of the trouble there was with the Department? A.—Yes.

Q.—Have you a copy of the Charter of it here?

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MR. McLAUGHLIN: I understood we furnished Mr. Fitzgerald with a copy, but if not we can furnish it. It is just the ordinary form.

MR. TILLEY: Q.—Who were the persons that formed that Company? A.—The ten directors who had become responsible for these securities.

Q.—You are speaking now of the Dominion Coal and the Crow's Nest Coal? A.—Yes.

Q.—I suppose that in the usual way that you have spoken of this morning the charter was not applied for in the names of those parties themselves? A.—I think not.

Q.—That is it would be applied for in the names of some persons who would be the applicants for incorporation, and then they would transfer their stock to the persons who were to become the permanent shareholders? A.—Yes, that is the course that is usually now pursued in companies.

Q.—Who were the ten directors that became responsible for the transactions? A.—Mr. D. D. Mann, S. G. Beatty.

Q.—William MacKenzie, Lloyd Harris, H. M. Pellatt, J. Mason, E. R. Wood, E. J. Lennox, R. L. Patterson and J. F. Junkin.

Q.—Were those the parties? A.—Yes.

Q.—Those were not all the parties of the company? A.—No.

Q.—Nor were they the complete members of any particular Committee? A.—No, they were the members who lived in Toronto principally, with the addition of Mr. Harris who lived in Brantford.

Q.—Why did you give the Toronto men this preference? A.—Being so close to the head office it was felt they were the parties who should be most conversant with the company's business, and therefore the responsibility for buying these securities rested more upon them.

Q.—It was not then because they had actually approved or ratified the purchase? A.—I think some one of them had been present at some one meeting where these securities were dealt with, I think that is the principle we went on.

Q.—You went through the minutes of the meetings where the matter had come up, and you got together the list of the directors who had at one time or another sanctioned the transaction? A.—That is correct.

Q.—And was there any dispute as to liability by any of these parties? A.—Well, some of them had a little reluctance at the beginning, but they

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all came forward in the end and assumed their full share, that is one-tenth.

Q.—The object then of the incorporation of the company was to take care of that particular loss that the company was threatened with? A.—Yes, entirely.

Q.—It was not intended, or was it, that the company should be a permanent company to buy and sell stocks and securities? A.—No, it was never intended as such.

Q.—It was formed on the same lines as the Canadian Securities Company? A.—The charter was very much the same, it had the power to buy and sell securities.

Q.—And the Canadian Securities Company, Limited, was a company that the Manufacturers' Life Insurance Company was interested in? A.—Yes.

Q.—It was in existence at that time? A.—Yes, before that.

Q.—And it is still in existence? A.—Yes.

Q.—So that you did not want to be interested as a company in any other company for permanently carrying on the business of buying and selling stocks, was the transaction that you decided on completely covered by the agreement you prepared between these parties and the Manufacturers' Life Insurance Company of the 7th March—that is in this file from Ottawa? A.—I do not understand your question.

Q.—I want to know whether the agreement that was prepared and signed completely covers the arrangement that the parties entered into, or was there any outside understanding separate from this agreement? A.—No, no outside understanding, only we carried it through a little more favorably to the Manufacturers' Life.

Q.—I will read the agreement first and we will see what change you made in that that was beneficial to the Manufacturers'? A.—I can tell you in a moment; we put up the \$100,000 in cash instead of getting a loan for it; the whole \$240,000 was practically put up in cash, and we got a loan of \$28,000 from the Manufacturers' on those securities mentioned this morning, the Western Assurance, the Royal Trust and Toronto Railway.

Q.—This agreement in the first place recites that the parties were members, etc. (Reads page 1 and page 2 down to "\$240,000"). By that clause 2 you were to transfer to the Securities Company the Dominion Coal stock and the Mexican Power stock, and the On-

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tario Electrical Development stock, were not you? A.—Yes.

Q.—Why were those other securities brought into the transaction, the Mexican Power Company stock and the Ontario Development stock? A.—They were stocks that had been secured as a bonus with bonds we purchased, and they had not any particular value at the time, that is any market value—

Q.—Let us understand; is this true, in both cases as to Mexican Power Company stock and the Ontario Electrical Development Company's stock? A.—Yes.

Q.—That is to say the company had bought bonds of both these companies, is that right? A.—Yes.

Q.—And in connection with the purchase of bonds the bonds carried a certain amount of the common stock? A.—Yes.

Q.—So that the price you paid covered the bonds and the common stock? A.—Yes.

Q.—You could hardly say that would not cost you anything, could you? A.—No, that would not be quite correct.

Q.—That was the consideration you got for the money, both the bonds and the stock? A.—Yes.

Q.—But it stood on your books as nothing? A.—Yes.

Q.—Have you the book here which shows how you treated a transaction such as that where you bought bonds and got common stock as a bonus? A.—Yes, I think so.

Q.—The first account you produce is the account of the Mexican Light & Power Company bonds, is this from the current ledger or from the closed file? A.—This is the current ledger.

Q.—And that account is still in the current ledger because there is some of the Mexican bonds on hand in the possession of the company? A.—Yes.

Q.—That account is headed, "Mexican Light & Power Company, interest 5% payable 1st February, half yearly, and also on the 1st August, bonds bear interest at 5%; bought to yield 5% about, and thirty years to run," and then the particulars are set out showing the purchase of the bonds in June 5th, 1903; you bought at that time about \$50,000 of them? A.—Yes.

Q.—That is par value, paying how much? A.—\$45,000 plus the accrued interest up to that date.

Q.—You bought these bonds at what? A.—Ninety.

Q.—They would cost you \$45,000, and you paid accrued interest up to

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the time you paid the cash? A.—Yes.

Q.—Where were the bonds in the meantime, were the payments for the bonds spread over a certain time, or did you not take them up just at the time? A.—I don't know, I have not seen that entry.

Q.—Just look at it? A.—You will have to have Mr. Franks to help us to explain that.

Mr. Franks explains to Mr. Tilley.

Q.—Then Mr. Junkin I see that the bonds were paid in four instalments? A.—Yes.

Q.—And they were bought from the Central Canada? A.—Yes.

Q.—And was that on the original issue of the bonds, and these instalments do they show how they were payable to the company, or is that the way you paid the Central Canada? A.—That is the way we paid the Central Canada.

Q.—By arrangement at the time of the purchase? A.—No, we were probably just paying as we had the money convenient.

Q.—These do not seem to be paid in even instalments? A.—No, it seems not.

Q.—But it is suggested that probably you had the privilege of pre-paying any payments that would become due on the bonds? A.—Yes, now that Mr. Franks mentions it I remember that that was the condition on which they were purchased.

Q.—Payable in instalments and you had the right to prepay? A.—Yes.

Q.—And then you would get the benefit of the interest? A.—Yes.

Q.—How much did you get in stock on each bond? A.—70%; that was \$350 shares.

Q.—That is on every \$90 paid you would get \$37 in stock? A.—On every \$90 we would get \$70 in stock, that is 70% of the par.

Q.—You would get \$70 of the common stock? A.—Yes.

Q.—\$350 stock on each bond? A.—On each \$500 bond.

Q.—The bonds are \$500? A.—I am not sure, some of them were probably \$500 and some \$100.

Q.—Where is that stock you got as a bonus with these bonds entered in this account? A.—I do not see it entered at all there, it is generally entered as a memorandum at the top of the account.

Q.—Can you show me anywhere in the minutes? A.—Yes, I can show you that.

Q.—The date is June 5th, 1903. I see on Friday, May 22nd, 1903, that

the purchase of the following bonds was approved, \$50,000, 5% Mexican Light & Power Company bonds at 90, with a stock bonus of 70%; so that that resolution shows the terms you were to buy the bonds at? A.—Yes.

Q.—But there is nothing in this account that shows anything about the stock? A.—No.

Q.—Either the receipt of the stock or the handing of the stock out to the Prudential Company? A.—No.

Q.—The other side of the account shows the bonds you received; where is the account for the Ontario Electrical Development Company bonds? A.—(Turns up account).

Q.—In the same way the Electrical Development of Ontario account contains a record of the bonds you received, the purchase being made in the same month of June, 1903; have you the minute of that? A.—(Minute produced).

Q.—“\$50,000 of 5 per cent. Electrical Development Company of Ontario, Limited, to be purchased on the best terms possible by the managing director”—there is nothing in that resolution that indicates any stock? A.—You will find it where the purchase was approved.

Q.—Where is that? A.—We will get it for you.

Q.—You had those bonds in stock then from June, 1903, until March, 1904, when you made the arrangement with the Prudential? A.—Yes.

Q.—Did you show the stock in your annual return to the Government as one of the assets of the company? A.—No.

Q.—So that there is no record in the accounts with respect to these securities of any common stock being held by the company with them, and there is nothing in the annual return to show you had any stock? A.—No.

Q.—How is that? A.—Well, we did not consider it as having any value at that time, we just merely put in the bonds.

Q.—It had sufficient value to be made a term of the sale to the directors? A.—Yes, that was in March afterwards.

Q.—That is only three months afterwards? A.—But even then we could not have placed a figure on it if we had been asked to.

Q.—That is to say it was not quoted on the Stock Exchanges then? A.—No.

Q.—It was not saleable publicly at that time, is that what you mean? A.—Yes, that is what I mean.

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Q.—Do you know when the Prudential Securities Company sold it? A.—It would be along somewhere towards the end of 1905, probably about first September.

Q.—What price did the Prudential company realize for that stock? A.—I don't know, but the market quotations along in 1905 were along about 65 for the Mexican stock and about 57 to 60 for the Electrical Development.

Q.—That is to say the \$35,000 common stock Mexican Power Company, Limited, would realize how much per share? A.—Probably about 60 or 65.

Q.—And \$45,000 in stock or unauthorized Electrical Development Company, Limited, would realize how much per share? A.—Probably about 55.

Q.—So that in 1905 at any rate these items were of substantial value? A.—Yes.

Q.—I have been asked to ask you whether at the time of the purchase of the Dominion Coal stock and the Crow's Nest stock or either of them any protest was made by either director, or any condition attached to the purchase as to liability of directors? A.—I think not.

Q.—It was suggested to me that some director pointed out that they were not authorized and that the directors would have to make good any loss, can you say whether that was so? A.—I think that is quite likely, I think it was so, yes.

Q.—I am not asking what is likely? A.—Yes, at some of the purchases that was discussed, I do not know whether it was the first or not.

Q.—At some of the purchases of what? A.—Of Dominion Coal.

Q.—In what year? A.—In 1902 or 1903.

Q.—And what do you say was the discussion that took place? A.—It was just pointed out by one of the directors that the directors were making themselves personally liable by buying a stock of this kind that was not included in the Insurance Act.

Q.—Which one of the directors pointed that out? A.—I could not say.

Q.—Do I understand that you remember some one director making that remark? A.—I remember I think perhaps more than one occasion the matter was discussed at the Board in that way.

Q.—Do you mean now general discussion amongst the parties that were interested, amongst the directors or the Committee? A.—Yes, it was mentioned in that way that we were personally running a considerable—

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Q.—That is not what I am asking. I am asking you whether there was a discussion, probably one person mentioning it at one meeting and some different person at another meeting or was this some one person that was on the Board or on the Committee that kept bringing that to the attention of the directors, if it was one person you would remember who it was? A.—Yes, I do not remember of any single individual.

Q.—You do not remember any person on the Board or Committee that took any different stand than the others took? A.—No.

Q.—That was the opinion of all, that you were dealing with securities and carrying on transactions that the company might have to look to the directors personally to make good any loss? A.—Yes.

Q.—And that was a matter constantly referred to? A.—I would not say constantly, I think it was referred to more than once.

Q.—And no person disputed that proposition? A.—No, in fact the feeling was that although it was not included then in the Insurance Act we had reason to believe a bill was going to be introduced—perhaps that is putting it too strong when I say we had reason to believe, but we thought it would be included in the new bill that we were expecting.

Q.—At that time you were anticipating new legislation by the Dominion Parliament? A.—Yes.

Q.—And you thought the securities which you were then dealing in might become authorized though not then authorized? A.—Yes.

Q.—And you were anticipating that by dealing in them before you were authorized? A.—Yes, that really applied to all these securities that did not come within the Act.

Q.—And you surely cannot say that that afforded the reason for carrying on that investment in those different securities for over a year, away through 1902 and 1903? A.—The proposed legislation dragged along for two or three years, it was postponed from term to term and session to session; the Government seemed to be too busy with other legislation to introduce the Act, and as a matter of fact it has never been introduced yet, although I understand they went so far as to draft it.

Q.—At any rate that was the idea of the members of the Board of Directors, and you cannot say there was any one person that was more pronounced than others? A.—No.

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Q.—This agreement goes on to provide by paragraph 3 (Reads paragraph 3); was that the clause that was changed? A.—Yes, instead of making a call loan of \$140,000 it was only for twenty-eight—

Q.—The cash that was paid would be the difference between that \$28,000 and the \$140,000, about \$112,000, and also the \$100,000, \$212,000? A.—If my memory serves me right the whole cash was paid in, \$240,000, and the securities taken up, Crow's Nest Coal and Dominion Coal, and then the call loan was made afterwards on these three securities I have mentioned.

Q.—The next paragraph goes on to provide (Reads paragraph 4). So that the sum and substance of the whole situation was that the directors took these stocks at the cost price, \$240,000, and they formed the Prudential Securities Company to carry them.

Q.—That \$240,000 was the cost price then of the Crow's Nest Coal and the Dominion Coal? A.—Yes.

Q.—So that the directors got as a present this Mexican light & Power stock and the Electrical Development stock? A.—No, the Manufacturers' Life received \$10,000 stock in the Prudential in consideration for that.

Q.—You got the \$240,000 cash for the Coal and the Crow's Nest, which was the actual cost to the company? A.—Yes.

Q.—That cleared you, you say for the money you had paid out? A.—Yes.

Q.—Did it cover the interest on the money you had paid out too? A.—Part of it, the interest was received in the way of dividends, one dividend was received a short time after the purchase I think.

Q.—That is the dividend from the Prudential Company you are talking about now? A.—No, I am speaking of the dividend on the Crow's Nest Coal and the dividend that we received soon after the purchase, I think we credited the capital account, and after that the dividends went as interest, so that the company had received interest in the way of receiving dividends on these stocks.

Q.—You do not know how it balanced? A.—No, but it came out in round numbers that it stood the company about \$240,000.

Q.—And then the company got \$10,000 of the capital stock of the Prudential Securities Company Limited, which was the only consideration you could make applicable to this Mexican Light & Electoral Development

stock which you transferred to the Prudential Company? A.—Yes

Q.—Then the Prudential Company carried on business after that I suppose and dealt in other stocks and bonds? A.—Yes.

Q.—And it was in connection with the business that was carrying on in that way that had these other transactions with it—that Prudential securities Company Limited account commenced on March 25th, 1904, a cash item of \$28,000, that was the call loan that you made the Prudential Company? A.—Yes.

Q.—And then on the other side of the page under the same date you have three securities that were deposited with you as against that loan? A.—Yes, the Western Assurance, Royal Loan & Savings Company and Toronto Railway Company.

Q.—170 shares of the first, 180 of the second, and 155 of the third? A.—Yes.

Q.—After that you had some very large transactions with this Prudential Company, hadn't you; the account in January, 1905, amounting to a loan of over \$260,000 from the Insurance Company to the Prudential? A.—What date?

Q.—In January, 1905. These are the balances here are they? A.—Yes, those are the balances.

Q.—So that in 1905 the balance amounted to over \$260,000? What was the nature of the transactions that you were having with the Prudential Company that involved the loan of so much money to it? A.—Just ordinary call loans the same as we would make to any other broker on good securities.

Q.—The shareholders in that Prudential Company were all of them Directors in the Manufacturers' Life? A.—Yes.

MR. McLAUGHLIN: Except the Manufacturers' Life itself.

MR. TILLEY: Oh well, we will not trouble about that. The list of shareholders in the Prudential Company never changed from the time the Company was started until it came to an end? A.—Very little.

MR. McLAUGHLIN: The provisional directors were changed.

MR. TILLEY: I am speaking of the shareholders. The shareholders were never changed, except that the incorporators were dummies and they afterwards transferred their shares to the persons to be interested in the Company. After that transfer took place

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the shareholders list of the Prudential Company remained the same throughout? A.—Practically the same.

Q.—So that they were all Directors of the Manufacturers' Insurance Company.

MR. McLAUGHLIN: Mr. Wood was not. A.—That is one exception, Mr. E. R. Wood was not a Director of the Manufacturers'.

MR. TILLEY: That is he ceased to be a Director of the Manufacturers' you mean? A.—He had gone off the board before the Prudential was formed.

Q.—At any rate they all maintained the same relationship to the Manufacturers' Insurance Company during the life of the Prudential Company that they had at the time that the Prudential was formed? A.—Yes.

Q.—So that Mr. Wood was an ex-directors of the Manufacturers' and the others were Directors of the Manufacturers'? A.—Yes.

Q.—Then the Prudential Company was practically a Company composed of Directors of the Manufacturers' Life? A.—Yes.

Q.—Then what sort of transaction was that Company carrying on that involved all this loaning of money, \$260,000 it amounts to in January, 1905? A.—They were buying and selling securities.

Q.—What sort of securities were they buying and selling? A.—Winnipeg Street Railway was one of the principal ones. They are all included in here, any that the Manufacturers' Life made any loans on.

Q.—Did the Prudential Company get loans any place else besides the Manufacturers' Life? A.—They would in the ordinary course of business.

Q.—Were you a Director of the Prudential Company? A.—The Directors were the same as the shareholders. The shareholders were all Directors.

Q.—Who was the person who attended to the management of that Company? A.—Mr. Franks was secretary.

Q.—Mr. Franks, what position did he hold in the Manufacturers' Life? A.—He was chief clerk in the investment department.

Q.—Well then was he a shareholder in the Prudential Company? A.—No.

Q.—He was merely then an official secretary appointed to act as secretary? A.—Yes.

Q.—Then do you say that he managed the affairs of the Company? A.

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—Well, yes, practically. The Directors managed it really.

Q.—Did you ever have Directors' meetings? A.—Oh yes, we had a few meetings.

Q.—Where would they be held? A.—In the Board room of the Manufacturers' Life.

Q.—And probably at the same time as the Directors' meeting of the Manufacturers' Life or immediately afterwards? A.—Some times immediately afterwards.

Q.—And then the investments would be made in these securities. Now besides Winnipeg Street Railway stock what other securities did they invest in? A.—Mexican Light & Power Company bonds.

Q.—Does that constitute the whole of it? A.—I think those were the two main securities.

Q.—Did the Prudential Company keep its own cash books and so on? A.—Oh yes.

Q.—Or did you keep the books for it? A.—No, they kept their own books.

Q.—And bought and sold stocks? A.—Yes. There were so few transactions that they were not very difficult to keep. All the transactions there were were large ones as you will see here; those two main securities and they turned out very profitable ones.

Q.—Without going into detail, can you tell me just what the nature of those transactions were as to volume? A.—The Winnipeg Street Railway, there were if I remember rightly something over 600 shares.

Q.—The Prudential Company bought over 600 shares of Winnipeg Street Railway? A.—Yes.

Q.—Would that be an authorized investment under the Insurance Act? A.—Yes.

Q.—Being an electric street railway that would be an authorized investment? A.—Yes.

Q.—Were the 600 shares all bought in July, 1904? A.—I don't just know what date.

Q.—I see there are some here turned in to you on July 13th, 1904? A.—Yes, well that was probably about the date of the purchase of the first 200.

Q.—July 13th apparently you advanced to the Prudential Company a loan of \$37,950, having previously advanced the original loan of \$28,000, another loan of \$14,000 in May and a loan of \$1,268 in July; there having been some repayments, in the meantime the balance on July 13th amount-

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ed to \$79,207.95. That is right, is it? A.—Yes.

Q.—So that the cash to finance that transaction of Winnipeg Street Railway stock was Manufacturers' Life cash? A.—Well, it was a loan just in the ordinary way as we would make it to any other broker.

Q.—Do you know what was paid and what margin there was between your loan and the amount paid by the Prudential Company? A.—No, I don't. I cannot remember.

Q.—The loan price was 189 $\frac{3}{4}$? A.—Yes, that was for the old Winnipeg Street Railway stock before the capital was doubled.

Q.—And you cannot say what was paid for it? A.—No.

A.—And you don't know, then, to what extent this loan that was made for the Manufacturers' Insurance Company at that time did or did not pay up the whole price of that stock? A.—No, I don't.

Q.—Can you tell from any papers you have here whether it did? A.—Not from these papers. These were simply the loans that were made on these stocks. I would have to look at the books of the Prudential Company to see what they paid.

Q.—Then after that 200 shares of Winnipeg Street Railway was deposited with you, there were 28 shares and then there is some Mexican Light and Power Company bonds and stocks in October, 1904. Now the money for those—given by you to carry those? A.—Yes, just an ordinary call loan in the usual way the same as the other.

Q.—And you cannot say again, or can you, whether the amount you loaned in respect of those stocks was the full amount of the purchase money or not? A.—No, I believe though that the loans were always within the purchase prices.

Q.—But you don't know to what extent? A.—No.

Q.—When you made those loans to the Prudential Company, did you take a hypothecation slip the same as usual? A.—Oh yes, just in the usual?

Q.—The hypothecation being by the Prudential Company? A.—Yes.

Q.—Not in any way guaranteed by the persons who were interested in the Company? A.—No.

Q.—It was an incorporated Company composed of your Directors and if the stocks became worthless there was practically no means of getting repaid your loan was there? That was all the assets the Company had? A.—Well I think it is quite likely the Directors

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would have been held responsible just the same as they were originally.

Q.—Why would they be held responsible in this case, it was only a technicality that they were liable originally? A.—Well on account of being interested in both Companies. It might have been held that way.

Q.—Do you suggest that, that the Directors in any way would have considered themselves responsible merely because they were Directors in both Companies? A.—I think they would. They took this up as a genuine transaction to indemnify the Company for every dollar it had lost and they did it and intended to carry it out from beginning to end no matter what happened. I am satisfied there is not a man on that Board would have backed down on the transaction.

Q.—What you say is that merely because the agreement entered into originally treated the loss on those stocks as reimbursed to the Manufacturers' Company and the whole transaction settled up as of that date, still if the Prudential Company had had any further loss in the conduct of this business for which they were not liable at all to the Manufacturers' Life, that they would have paid those as well? A.—Yes.

Q.—But there was never anything taken from them at the time these loans were made which made the Directors in any sense personally responsible? A.—In the way of personal covenants?

Q.—Legal liability? A.—No, it was made the same as it would be to any other Company.

Q.—If there was any obligation it would be an obligation arising out of the situation of the parties and a moral liability? A.—Yes, I think there would have been both a legal and a moral liability.

Q.—Why do you say legal?

MR. McLAUGHLIN: As far as the legal question is concerned, he can hardly be asked to swear.

MR. TILLEY: He is not being asked to swear. He is volunteering it. A.—I am not a lawyer, but I always looked on the matter in that way.

Q.—Does not that entirely differ from your evidence this morning when you said you thought it was a perfectly proper transaction, or not an objectionable one, for two Companies to have dealings with each other where the Directors are common? A.—This is quite a different case. This Company was formed, as shown in the

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agreement, for a special purpose. I think that agreement would have held good right through from beginning to end. It was formed for the purpose of carrying out the loss that the Directors assumed.

Q.—The loss was assumed and the transaction was completed and the loss paid the moment that the agreement was carried out and the stocks transferred? A.—Well, perhaps I am getting on to legal ground where I have no right to go.

MR. McLAUGHLIN: He can only give his own idea.

MR. TILLEY: Mr. McLaughlin is objecting to your getting on to that sort of ground.

MR. McLAUGHLIN: Yes, I think it is an invasion of my prerogative. He can only give his own personal feeling.

MR. TILLEY: At any rate that is the way the transaction took place. There was no covenant by the Directors that they would indemnify? A.—No.

Q.—In the way of a formal document prepared? A.—No, just the usual covenant of a Company.

Q.—Possibly it would be fair to say that phase of it was not considered at that time? A.—No, in fact it never was, it never occurred to me for a moment.

Q.—Then some more Mexican Light stock was bought in January, 1905, and was a loan on that obtained? A.—Yes, that is a loan.

Q.—I see a further loan to the Prudential Company in January, '05, of \$92,276.78. That was the loan that brought the total call loan from the Insurance Company to the Prudential Company up to \$264,136? A.—Yes.

Q.—Then that loan remained about at that figure until May, 1905, when it was reduced to \$128,452? A.—Yes.

Q.—And two days later to \$107,956. Is that right? A.—Yes.

Q.—Which was paid four days later? A.—Yes, paid in full.

Q.—That means that in the month of May the Company was closing out all the stocks that it had carried? A.—Yes.

Q.—It seems to be so here, between the 3rd and 5th of May the Prudential Company sold out all its stock? A.—Yes.

Q.—And up to the month of May, 1905, it had not sold any stock at all, it had been carrying it all? A.—I think that is practically correct. There might have been some small transactions.

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Q.—So that the purchases were made substantially in the year 1904 and the sales were made practically in the month of May, 1905? A.—Yes.

Q.—Realizing a profit to the company of how much money, do you know, in round figures, you have not the books here, to the Prudential Company? A.—I couldn't say offhand. It was not a very large one I know.

MR. McLAUGHLIN: The profits on the securities were very considerable. They made up the loss on the securities that the Prudential took over, with a slight surplus? A.—The idea was to wind up the company just as soon as things would balance, but they may have, in fact they did a little over-balance when they wound up.

Q.—Then that was the original intention? A.—Exactly.

Q.—That you would form this Prudential Company amongst the Directors of the Manufacturers' Life Insurance Company, that you would buy some of these Winnipeg and Mexican stocks, and carry them until the market got better, sell them and clear up the whole transaction? A.—Yes.

Q.—And that was the way, it was not just a payment by the Directors closing that loss on the stocks, it was the formation of a company to do a little speculating and then pay it? A.—No, it was a payment by the Directors of \$240,000 to the Manufacturers' Life for Crow's Nest Coal and Dominion Coal, straight and clean.

Q.—Did the Directors put up that money at that time? A.—Yes, the whole thing was paid in cash.

Q.—And then when it came to the end of the company, they reimbursed themselves? A.—To the end of what company?

Q.—The Prudential Company? A.—Well, they formed the Prudential Company for the purpose of trying to make up the loss of \$14,000 apiece, or whatever the loss was.

Q.—Whatever they had had to pay out? A.—Yes, that was a separate transaction from the Manufacturers' Life, that was a different thing.

Q.—To what extent was it separate, did they borrow any money from any other person besides the Manufacturers' Life? A.—Yes.

Q.—Are you sure of that? A.—Yes.

Q.—How much, anything like what they borrowed from the Manufacturers'? A.—Well, I remember one loan of \$100,000.

Q.—So that they did get a substantial accommodation? A.—Yes.

Q.—From independent sources? A.—Yes.

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Q.—Entirely independent of the Manufacturers'? A.—Yes, they had a regular investment and brokerage business just as the charter set out that they were empowered to do.

Q.—Any other loans the Prudential secured, the Manufacturers' were not parties in any way? A.—No.

Q.—They did not endorse or become liable for the Prudential? A.—No, I think not. I cannot remember any such thing.

Q.—You are sure that that is the case are you? A.—Yes I think so.

Q.—Then for the \$10,000 capital stock that the Manufacturers Insurance Company got at the time the Prudential Company was incorporated. A.—Pardon me, I have been thinking a little while you have been speaking. I want to make that more emphatic. I know the Manufacturers did not guarantee in any way any transaction they had.

Q.—I gathered that that was what you meant to convey, that that was the absolute fact. You say that the Manufacturers Company besides getting the \$240,000 for the Dominion Coal and Crow's Nest Coal stock got the \$10,000 in the capital stock of the Prudential Company, which might be a consideration or which was looked upon as a consideration for the bonus Mexican stock and the bonus Electrical Development stock? A.—Yes.

Q.—Now you say that the Prudential Company in May, 1905, was able to close up its business and pay all its shareholders the cash they had put up? A.—Yes.

Q.—And that was done with some profit in addition? A.—Yes.

Q.—Then the Manufacturers Company would get something for its \$10,000 capital stock in the Prudential Company? A.—Yes, they got something over \$10,000.

Q.—Where is that shown? A.—It is shown in the two accounts, the original accounts of the Mexican Power Company and the Electrical Development Company, on account of the bonus stocks having come originally from those two securities.

Q.—An item is pointed out in the Electrical Development Company account where the purchase and sale of the bonds is shown, an item on June 23rd, 1905, "By cash Prudential Securities Company \$2,500," and then the following item, "August 5th, By cash from the Prudential Securities Company \$1,500," making altogether \$4,000? A.—Yes.

Q.—Now that is \$4,000 that you received in respect of the \$10,000 capital stock? A.—Yes.

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Q.—And you credited that on your Electrical Development Company account because the common stock that you transferred to the Prudential Company had come from that account? A.—Yes.

Q.—Although the stock itself had not been shown in that account? A.—Yes, it was merely an oversight evidently of Mr. Franks' not to make the memorandum there. Our usual method is to make a memorandum at the top of the page of the bonus stocks.

Q.—Is there any other case that you have got bonus stocks that you can show me where that is done? A.—We have very few transactions of that kind, about bonus stocks. Yes, Chicago & Milwaukee bonds perhaps. I may be mistaken about that memorandum but that is what I thought was done. I know they always entered into the minutes.

Q.—Mr. Franks refers to an account of the Toronto Hotel Company where you have entered on March 4th, 1901, "Capital stock given as a bonus on bonds," and then it says, "To stock 10 fully paid shares \$1,000." No cash value put opposite the item. Then the Quebec Railway Light & Power Company is also shown, capital stock given as a bonus on bonds. And then in 1900 there are three items, bonus on bonds during September of 1900; March, 1901; and December, 1900. No cash value put opposite and the change in the order of the dates is said to be due to being the different dates of purchases, but they seem to be entered as different dates. In the case of the Chicago & Milwaukee bonds, did you get stock there Mr. Junkin? A.—We did with our first purchase I think.

Q.—There seems to be a blank page here for it. Do you know how that is, there is nothing shown there of the stock? A.—No, I don't know. I leave the details of bookkeeping largely to the Auditors and Secretary. As a matter of fact I don't suppose I have ever seen that account before.

Q.—Probably it would only complicate matters to go into that phase of it any further here, because we want to collect that sort of transaction at one time. But take the case of Sao Paulo bonds, didn't you have common stock there? A.—No, we didn't buy them in time for that.

Q.—You were not soon enough on the market? A.—No.

Q.—Leaving them to be probably mentioned again. In the Mexican Light & Power account there is an entry, on June 23rd, 1905 "By cash

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Prudential securities \$2500'' and August 5th, 1905, By cash, and it is said to be from the same source, there is nothing to indicate it in the book, \$1500, making another \$4000, so that you got, did you, from the Prudential Securities Company \$8000 in cash? A.—We received more than that, I think there is a further entry there.

Q.—And you had 50 shares of stock of the Mexican Company returned to you which was sold on December 6th and realized \$3262.90? A.—Yes, that made over the \$11,000 that I spoke of.

Q.—So that in respect of the \$10,000 capital that was allotted to your company, the company received over \$11,000 in cash? A.—Yes.

Q.—And that was applied in payment of the common stock of the Mexican Company, and the Electrical Development Company, which were turned over to the Prudential Securities Company? A.—It was applied on the bond account.

Q.—On the bond account, because the common stock had come from there? A.—Yes.

Q.—Then the stock does not seem to be entered as of the date it is received, but entered as of the date it is sold. Is there any book where you keep a record of stocks and bonds that are received and delivered out, in your office? A.—They are supposed to be entered up in that book when we receive them. The account is on one side and the memorandum of the stocks on the other. We treated that as practically the same as if it were a cash item, because when we received it back we intended selling it.

Q.—The moment that 50 shares of Mexican stock was returned to the Manufacturers Insurance Company by the Prudential, would not some entry be made in your books to show the receipt of it? You would not need the entry of that to be made as of December the 6th when it was sold, would you? A.—Not usually, no. In the ordinary course of business of course there would be cash paid out, but this happened to be just a special case where the stock was handed us back instead of cash.

Q.—In an ordinary case there would be some transaction that would affect your cash account? A.—Yes.

Q.—Which would necessitate an entry being made? A.—Yes.

Q.—But if the stock came in or the bonds came in to your company without any transaction occurring which would affect your cash account, then it might be held there without

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any entry being made until some item affecting the cash had to be made? A.—Yes, it might be.

Q.—And that you say would be the reason why that might appear as of December the 6th. Have you got any account in your books at all or have you had any where stocks of uncertain or supposedly no value are carried? A.—No.

Q.—Have you any contingent account? A.—No. Well, contingent account, not in that sense.

Q.—I mean in the sense of assets, securities, stocks, or bonds? A.—No, this is the book they are supposed to be entered in, any bonus stocks in that way.

Q.—Then your record in connection with bonus stocks is by no means accurately kept, as we have seen. In the Chicago and Milwaukee it is a blank page. In the Mexican Light and Power it was not shown. I am not asking anything about putting them in at a value, but I am asking whether you pretend in your system of keeping your books to show all these bonus stocks you received as assets of the company, or whether you do not? A.—Yes, we presume to keep them as assets.

Q.—But you have no account where they are collected? A.—No, no special account.

Q.—And as a matter of fact the only record that you had in your books in any shape or form as to the Mexican stock was in the resolution where the bonds were authorized to be purchased? A.—Yes.

Q.—There was no book kept showing the stocks that were not entered in the books as having some market value, or commercial value? A.—There would be a memorandum put in with the bonds.

Q.—Put in where? A.—In the vault. The bonds and stock would be put in together.

Q.—That is something on the outside of the file do you mean? A.—The envelope.

Q.—On the outside of the envelope you would simply put a record of what is in the envelope? A.—Yes.

Q.—Is that the only record you are supposed to keep of those bonus stocks? A.—That, and this book that you have before you and the minutes.

Q.—They were a substantial item were they not? You take Chicago and Milwaukee, Mexican Light and Power, and Electrical Development? A.—Well, that covers the whole list, with

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the Quebec Railway Company, and the Toronto Hotel Company.

Q.—You say then that those we have just mentioned, or the ones I have mentioned, and the ones you have mentioned put together, that they constitute every case where your company has ever got bonus stocks? A.—Yes.

Q.—Or any person got bonus stocks on bonds purchased by the company? A.—Yes.

MR. SHEPLEY: I have been speaking to my learned friends, and we are inclined to think, subject to what your Honor's view may be, that it would be a waste of time perhaps bringing people away for a Monday afternoon sitting, more than would be saved by sitting just for half a day.

MR. HELLMUTH: I quite agree with what my learned friend says in that.

MR. SHEPLEY: One of the gentlemen desires to go home to Montreal, and it seems a pity that he should come here so early and waste half a day.

JUDGE MAC TAVISH: On Tuesday you will be ready to proceed with Mr. Junkin?

MR. SHEPLEY: Oh yes.

JUDGE MAC TAVISH: We desire to expedite the matter as much as possible. However, I daresay no time will be lost by an adjournment until Tuesday.

MR. SHEPLEY: We would not be able to be at all idle so far as this inquiry is concerned in the meantime.

JUDGE MAC TAVISH: Then we will say Tuesday morning at half past ten.

(Adjourned to Tuesday morning at half past ten.)

SEVENTEENTH DAY.

MORNING SESSION

Toronto, May 1st, 1906.

Examination of Mr. Junkin continued:

MR. TILLEY: Q.—On Friday you were speaking of some bonds that were purchased with stock bonus; I would like to get now a complete list of those with the stock bonus that you received and what became of it, could you give me the list from your books? A.—I don't know whether I could

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compile it just offhand or not, we could prepare it in a short time, perhaps at noon.

MR. McLAUGHLIN: Mr. Franks states he can give them.

MR. TILLEY: We will take them in the order of time. A.—The first transaction was the Quebec Railway.

Q.—State what that transaction was? A.—September 5th, 1900, we purchased \$14,000 of Quebec Railway Light & Power Company bonds on which we received a bonus of 10 per cent.

Q.—Ten per cent. of common stock? A.—Yes.

Q.—Through whom was that purchase made? A.—It was purchased through the Central Canada Loan & Savings Company.

Q.—At what price did you purchase the bonds? A.—107½.

Q.—What became of the bonds that you purchased? A.—We have them yet.

Q.—What became of the stock? A.—We have it yet.

Q.—And they were both purchased in what year? A.—September 5th, 1900.

Q.—Has that been shown in your annual statements to the Government? A.—The bonds were.

Q.—The bonds each year? A.—Yes.

Q.—And what about the stock? A.—The stock was never mentioned until this last year.

Q.—How did it come to be mentioned during the last year? A.—There was so much talk about these stock bonuses, we thought we had better show everything we had.

Q.—Did you ever consider that question before? A.—No, we never did. We always considered it in this way that as soon as this stock appreciated to have any particular value we would include it in the assets, but as long as it had no particular market value and was not listed—

Q.—The form you send in to the Government is verified by affidavit and is supposed to show all your assets? A.—We considered them as a sort of attachment to the bonds; and we considered we were fulfilling that as long as we showed the bonds; they were kept in the vault with the bonds.

Q.—Was there anything on the account itself to show these bonds carried bonus stock? A.—Not here.

Q.—Where is there anything? A.

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—There is a separate account for some of them.

Q.—I am talking of this particular lot, the Quebec Railway Light & Power Company? A.—Amongst the stocks, (Turns up account); fourteen hundred Quebec Railway Light & Power Company's stock and no value carried out for it.

Q.—Then these entries in this account of the stock of the Quebec Railway Light & Power Company were not made in their proper order, were they? A.—In that way?

Q.—The first you have an item of September 19th, 1900, then you have an item of March 2nd, 1901, and then December 11th, 1900? A.—That came to us through the Temperance & General, that December 11th, 1900; that is how it is out of order. Although it was purchased at that date it did not come to us till July, 1901; so that they are really in the order in which they came to us.

Q.—Do I understand this is a transcript of some book of the old Manufacturers' Life book, that is the old Company's book? A.—I think not.

Q.—This entry September 19th was not made by the old Manufacturers' Life Insurance Company? A.—No, I believe not.

Q.—Nor was the item of March 2nd, 1901? A.—No.

Q.—These entries were all made in the Manufacturers' Life Insurance Company, the new Company's books? A.—Yes.

Q.—How was it they were not made then in the proper order? A.—We would take the old book of the Manufacturers' Life and enter the items from that in this and then we would evidently take the books of the Temperance & General and complete the account.

Q.—Can you say when this stock sheet was made out? A.—I think it was towards the latter part of 1901.

Q.—This sheet showing the stock bonus was made out in 1901? A.—I think so.

Q.—Do you say then that some of these bonus stocks came through the old Manufacturers' Life and some through the old Temperance & General? A.—Yes, the first two came through the Manufacturers', and the last through the Temperance & General.

Q.—The account for the bonds does not seem to make any distinction? A.—There are three different accounts

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for the bonds, there are three different lots.

Q.—You have shown us one here, where is the next one? A.—The old Manufacturers', the two are put into the same account; first there is \$14,000 and then \$18,000.

Q.—The old Manufacturers' account shows that the company got \$14,000 of the bonds on September 5th, 1900, and \$18,000 on February 27th, 1900? A.—Yes.

Q.—Were they paid for at the time? A.—Yes.

Q.—Would you get the stock at the same time? A.—Yes.

Q.—The first item of stock is credited September 19th, 1900, and the second one on March 2nd, 1901, so that would be sent to you after you had paid for the bonds apparently? A.—Yes.

Q.—It is credited in your books I see a few days later than the bonds? A.—It probably took a few days to get the stock transferred to our name.

Q.—Then the old Temperance & General apparently purchased its bonds on December 11th, 1900, and it got the stock at the same time; you say that accounts for the entries there being out of their proper order? A.—Yes, these being transfers from the old book.

Q.—And that was never shown in your annual return until this last year? A.—No.

Q.—And the showing of it in the return was never discussed at all at any meeting of the directors? A.—No.

Q.—Or by you with any other officers of the company? A.—No.

Q.—Or the solicitors of the company? A.—No, I do not ever remember discussing it at all. What I always had in mind was when these stocks were listed or came to have a substantial value then we would place them in the assets; in the meantime they were kept in the vault in the same envelope with the bonds.

Q.—Were any of these stocks ever out of the possession of the company from the time you received them? A.—Never.

Q.—And were just kept then as something you say that gave rather an increased value to the bonds, rather than of separate value themselves? A.—Exactly.

Q.—How did they come to be issuing bonus stock with those bonds? A.—I suppose they received a bonus with them in purchasing them.

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Q.—The Central Canada? A.—Yes, they would probably purchase a large block of these bonds, perhaps at an earlier date, it may have been years before this. It is quite customary in issuing bonds for an institution, a public utility corporation, to give a bonus of stock to the purchaser with the bonds.

Q.—That is what you suggest, do you know whether that it so? A.—No.

Q.—Did you make any enquiry about that at all? A.—About what they paid for them?

Q.—No, about how they came to have this capital stock? A.—No.

Q.—It was not a bonus of capital stock you received direct from the company, but you supposed the Central Canada received it direct from the Company? A.—Yes.

Q.—In connection with bonds it purchased direct from the company? A.—Yes.

Q.—Did you ever inquire into the issue of that capital stock or of any similar capital stock given by way of bonus? A.—I always do. I look up to see how much capital stock there is and what the earning power of the concern is at the present time or what it is likely to be as far as I can size it up, to be able to arrive at a conclusion as to whether this stock is ever likely to have any value or not.

Q.—You are looking at it now from the standpoint of the value or the worth of the stock? A.—Yes.

Q.—Just in the same way that you would consider the value of the bonds when you would make the investment? A.—Yes.

Q.—I am asking you whether you ever examined to see whether the stock that purports to be issued as paid-up stock is really paid-up stock or not? A.—The stock certificates tell whether it is paid-up or not.

Q.—Is that all you examined into in order to determine that question? A.—In trying to arrive at the financial position of the corporation, whatever it may be, I try to ascertain how much cash they actually put into it.

Q.—How much cash who actually put into it? A.—The promoters.

Q.—Then how does that assist you in determining whether this capital stock is really paid up, or whether it is not entirely unpaid stock carrying a liability? A.—Take for instance, supposing we are buying the bonds of an electric railroad in Ohio, and it is bonded for a million dollars, and I find out on enquiry, after making as

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close enquiry as I can, that they have only put a million dollars into it, they have bonded it for a million, and they have issued a million stock, they have only put a million dollars into it—

Q.—For both bonds and stock? A.—Yes. I find out also on close enquiry that that money has been well expended, and that there is really a million dollars assets there, that is in the plant, a million dollars replacement—it is a technical word that bondmen use, to take the million dollars to replace the plant. Then somebody else offers me another bond of a railroad in Ohio equally well situated, and it is bonded for a million, and they have issued a million stock on it, and on enquiry I find out that they have put in their million dollars for their bonds, and they have actually sold their stock for cash for \$50 a share, \$100 share, so that the stock represents half a million of actually cash put in, and that cash has also been well expended, then I would consider that a much more valuable bond than the other, because it has more behind it, more assets.

Q.—Taking the last instance first, how do you consider that stock on which \$50 per share has been paid where the stock is \$100—how do you consider that is paid up? A.—It might be paid-up stock if there was only \$1 a share paid on it.

Q.—How? A.—It is paid up providing they cannot call on the stock to pay any more.

Q.—Do you inquire into all aspects of it when asking bonus stock? A.—Yes, I would not take any stock for the company if it carried a liability of that kind, unless it were bank stock.

Q.—What means do you take to ascertain whether that bonus stock is paid up or not? A.—You can tell from the certificates and from the charter.

Q.—Do you go behind the certificate? A.—Yes, we examine the charter.

Q.—Who does the examining, do you examine or do the solicitors for the company examine? A.—Both.

Q.—Always, or on occasions one and on occasions the other? A.—It depends on how old the concern is and how well known it is. If we had any suspicion about it at all I would certainly have the solicitors examine carefully in every case; if it is a stock I am well acquainted with and people are dealing with every day I know for a fact it is paid up.

Q.—Then if it comes to you from

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some other person and has been a stock on the market for some time you make no further enquiry, that is practically what you mean? A.—Yes.

Q.—So that the stock that is issued to you by the company itself, or that you get direct from the company along with bonds that you buy direct from the company then you do make enquiry, is that it? A.—Yes, I always satisfy myself, examine thoroughly that there is no liability on any stock we take over.

Q.—You are satisfied on that bond with your own opinion on the legal liability? A.—Yes; I think I am capable—

Q.—I did not ask that? A.—I am not saying you are insinuating that, but I would say in any ordinary case I would consider myself capable of judging whether a stock had any liability on it or not, after looking at the charter and the certificate itself.

Q.—Supposing a company is selling to you its own bonds at 90 and giving a bonus of 100 per cent stock, that transaction takes place sometimes, does it? A.—Yes.

Q.—The company itself gives you bonds at 90 with a bonus of 100 per cent of company's stock, and you pay \$90, and you get a certificate that the stock is paid up? A.—Yes.

Q.—Does that make it paid-up stock? A.—Yes.

Q.—Is that the legal opinion you are passing these bonus stocks on? A.—That stock is paid-up stock.

Q.—That is the extent of the enquiry you would make? A.—No, I am not saying that at all.

Q.—That the certificate says that the Manufacturers' Life Insurance Company is the holder of 100 shares of paid-up stock, common stock, in the company, then you read that and you say, it says paid-up, therefore it is paid up—is that the legal knowledge you apply? A.—Taking the stock certificate and the charter together.

Q.—The charter will say nothing about that, the charter simply says the company is incorporated with capital stock of so many shares of so much each, that does not show anything about the payment of that—I just put it that way to you, whether you would pass that, or whether you do pass that as sufficient evidence that the stock is fully paid up, so long as the certificate says it is paid up? A.—Yes.

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Q.—Whether you get it direct from the company or whether you buy it from some person else? A.—If I got it direct from the company and it was not stock that was being transferred from hand to hand I would submit it to our solicitor.

Q.—You think you would go back to the solicitors after that? A.—That stock, a new concern.

Q.—But if it was something that was passing around as paid-up stock then you would take it as— A.—Take the stock of the Toronto Railway for instance, I would not think of going to our solicitor.

Q.—Taking something that is listed on the Stock Exchange, or something that has passed through several hands you would take that without any further enquiry? A.—Yes.

Q.—What is the next lot of bonus stock you got? A.—The Toronto Hotel Company.

Q.—What was the Toronto Hotel? A.—The Company organized to build the King Edward Hotel.

Q.—Did you subscribe for bonds in it? A.—Yes.

Q.—By what authority did you subscribe for bonds in the King Edward Hotel Company? A.—We considered them a first mortgage on real estate.

Q.—How did you do that? A.—Because it is.

Q.—The bond the company issues, is it a mortgage on its real estate? A.—Yes.

Q.—So that the bond itself was a specific charge on the real estate belonging to the Hotel Company? A.—Yes.

Q.—How many bonds did you buy? A.—\$10,000.

Q.—When? A.—First November, 1900.

Q.—From whom or through whom? A.—Through Aemilius Jarvis & Company.

Q.—Were they acting as your brokers, or were they acting for the sellers of the bonds? A.—They were acting for the sellers.

Q.—So that you paid no commission on that? A.—No.

Q.—Was there not some Act passed authorizing financial institutions to invest in bonds of the Toronto Hotel Company? A.—I think now you mention it I do remember something of that kind.

Q.—That was a statute passed to enable financial institutions to take an interest in the bonds of that Hotel Company? A.—Yes, that is my recollection.

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Q.—What bonus of stock did you get in that case? A.—Ten per cent, \$1,000.

Q.—That would be common stock? A.—Yes.

Q.—Did you get the bonds and stock direct from the Hotel Company, or were they transferred to you from some other party? A.—They came through Amelius Jarvis & Co.

Q.—Can you say whether they were issued direct to you by the Toronto Hotel Company or not? A.—They would be handed to us by Jarvis, and I don't know who was the real owner of them, whether—

Q.—You don't know whether you were getting them direct from the Toronto Hotel Company or some other person? A.—We made our cheque to Jarvis & Company.

Q.—Did you make any enquiry there to see whether the capital stock was paid up? A.—That is one that would likely be referred to the solicitors.

Q.—Can you say whether it was? A.—No, I could not.

Q.—That is not according to the rule you have given us, that you would refer to your solicitors? A.—Yes.

Q.—While there is nothing here to indicate whether it was sent to the solicitors I suppose there would be at the office? A.—Yes, it would be on the file in connection with the different lots of bonds, we keep a file in connection with each one.

Q.—Did you buy more than one lot of those bonds? A.—Just one.

Q.—Have you them yet? A.—Yes.

Q.—Have you the stock yet? A.—Yes.

Q.—When did you first show stock in your annual returns? A.—Last year.

Q.—That is in the same category as the one you spoke of before? A.—Yes.

Q.—No mention was made of it; is there any account for the stock? A.—Yes.

Q.—Has that been in existence all the time? A.—All the time. There is a memorandum showing capital stock given as a bonus on the bonds, no value carried out for it.

Q.—The item shows the entry was apparently made March 4th, 1901, ten fully paid up shares of stock, \$1,000, with no market value? A.—Yes, certificate number 77.

Q.—What is the next one where you got bonus stock? A.—The next one would be the Mexican Light and

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Power Company. We bought \$50,000 par of those bonds on June 5th, 1903, and received a bonus of 70 per cent.

Q.—Those were the Mexican bonds and stock you spoke of in your evidence before? A.—Yes.

Q.—Those shares of common stock were not shown in your return at all, I think? A.—No.

Q.—They were transferred to the Prudential Securities Company at the time the loss was paid on the unauthorized investments? A.—Yes.

Q.—Those shares of Mexican stock at that time, so far as your books indicated, could have been passed out without any record being disturbed at all? A.—The minute is always there.

Q.—The minute authorizing the purchase, that was the only place where any mention occurred in your books of the fact you owned that bonus common stock? A.—That and the docket in the vault.

Q.—That is, and on the outside of some envelope which would contain the certificate itself, that is right? A.—Yes.

Q.—That would hardly be the sort of record you would rely on, would you, that endorsement on the outside of an envelope. I suppose when the bonds are taken out of those envelopes or the securities sold or disposed of the envelope is destroyed? A.—Yes, I suppose it is.

Q.—So that in the natural order of things that would disappear? A.—Yes, there is the correspondence docket in the vault which I mentioned before in connection with all these securities, each is kept by itself, and that is kept for all time.

Q.—Each what? A.—Each docket kept in our inner vault in the company's office, that is if we want to see at any time all the correspondence that ever took place in connection with these Mexican Light and Power bonds we find it on file there in that particular docket.

Q.—You say probably there would be some correspondence relating to that? A.—Not only the correspondence, but the broker's note, the invoice for these, setting out—all the particulars.

Q.—If they disappeared I suppose it would be possible if all these did not disappear at the same time, to find something in the records of the company that refers to it? A.—It would not only be possible, but it would be impossible not to find it if any person—

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Q.—Started to hunt for that particular thing? A.—Yes.

Q.—But there is nothing the auditor would find? A.—Oh, yes.

Q.—How would the auditor find it? A.—Our auditors go over these, and the Superintendent of Insurance, I think, generally goes over them.

Q.—How would the auditor find out? A.—He not only looks up the minute to see what is authorized to be purchased by the company, but I understand he checks matters to see that they have been carried out according to the authorization.

Q.—That is what I say, the only place in the book there is anything in the nature of any record that could be relied on is the minute in the book authorizing the purchase? A.—These dockets are open to the auditors.

Q.—That is the correspondence is there? A.—Yes.

Q.—He would not think of going through all your correspondence file unless there was some item cropping up? A.—He would not have to go through it all, if he came across a payment of say \$45,000 for these bonds—

Q.—Without anything on the page to show anything about stocks? A.—The docket would be the first place he would go to see if this transaction was carried out according to orders.

Q.—And you say there he would find the stock was mentioned? A.—Yes.

Q.—That was not a very safe way of keeping the record of stock? A.—If we were doing much business of this kind I think we would devise a particular system for it.

Q.—Had those shares of stock just been issued by the company, the Mexican Light and Power Company? A.—Yes.

Q.—Do you know what care you took to ascertain whether these shares of this company were paid-up shares? A.—Yes, our solicitor examined it.

Q.—You say sometimes you look at the share; does that mean there is special reference to the issuing of paid-up stock in the charters of some of these companies? A.—It would be necessary to examine the charter in these cases in connection with the bonds even, irrespective of the stock, to see if the—

Q.—To see if the bonds were properly issued? A.—Yes, sir.

Q.—He would refer to the examination of the charter in connection with your enquiry as to whether the stock was paid up—do you mean you find

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special provision in some of these charters authorizing the issue of stock at less than par? A.—The charter, by-laws and annual meetings and so on, all taken together, would govern the issue of stocks.

Q.—Do you find that provision in the charters of the companies? A.—The original intention regarding the issue of stocks would be in the charter.

Q.—I am asking you do you find it there? A.—We do, the charter with its amendments.

Q.—What do you mean by amendments? A.—If there was a further issue of stock their Act of Incorporation—

Q.—The charter does not refer to the issue of stock, the stock is not issued by the charter; do you find in the charter itself, which you say you examined sometimes to see whether the stock is properly paid up, do you find any reference there to the right of the company to issue stock at less than par, in some cases or any cases? A.—At less than par, no; the charter does not say what the stock will be at.

Q.—It does not say in any case that you remember of what the stock shall be issued at? A.—No.

Q.—If the charter shows nothing on that point you would pass it if some by-law was passed authorizing the issue of the stock at less than par, would you? A. You might call it a by-law or resolution.

Q.—Or any act of the company? A.—Yes.

Q.—At any rate you say these particular bonds and shares were submitted to your solicitor for his opinion on the matter? A.—Yes.

Q.—And the opinion was favorable and you carried it through? A.—Yes.

Q.—What other case did you get bonus stock from? A.—The other case that was mentioned in this connection, the Electrical Development.

Q.—Tell us when you bought those, and from whom you bought them?

JUDGE MACTAVISH: From whom did you buy the Mexican Light and Power bonds? A.—From the Central Canada.

MR. TILLEY: Were they acting as brokers or as vendors? A.—Vendors.

Q.—Then it was a direct purchase? A.—Yes.

Q.—As between you and the Central Canada? A.—Yes.

Q.—Now, then, the Electrical Development bonds and stock? A.—We pur-

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chased on June 11th, 1903, \$50,000 par.

Q.—From whom did you buy them?
A.—S. G. Beatty.

Q.—What date? A.—June 11th, 1903. I am not sure that is the purchase, that is the date we made the first payment.

Mr. Franks stated the company paid for the bonds in instalments until the full \$50,000 was paid for.

Q.—Who was S. G. Beatty? A.—He is President of the Canada Publishing Company.

Q.—What relation does he bear to your company? A.—He is a director.

Q.—And a large shareholder? A.—Yes.

Q.—Is he one of the Vice-Presidents? A.—No.

Q.—You have two Vice-Presidents? A.—Yes.

Q.—Who are they? A.—Sir Henry Pellatt and Lloyd Harris.

Q.—And the President is who? A.—Hon. G. W. Ross.

Q.—You bought those from Mr. Beatty acting as vendor or as broker? A.—As vendor.

Q.—He owned them? A.—Yes.

Q.—And he sold them to you? A.—Yes.

Q.—How did that transaction come to be put through? A.—I was ordered by the minutes, which you will find among the minutes of the company, to purchase wherever I could secure the best terms, and after making numerous enquiries, both in Toronto and Montreal, I found I could get better terms from Mr. Beatty than anybody else.

Q.—The resolution is at page 11 of the minute book, and in the minutes of the Finance Committee, meeting held May 22nd, 1903; there were present at the meeting Lieutenant-Colonel Pellatt in the Chair, Messrs. Colonel Mason, S. G. Beatty, R. L. Patterson, the Managing Director—that would be yourself? A.—Yes.

Q.—And the Assistant Secretary, that would be Mr. Winter? A.—Yes.

Q.—The resolution is in these words: "\$50,000, 5 per cent. Electrical Development Company of Ontario, Limited, to be purchased on the best terms possible by the Managing Director"—that was passed on May 22nd, and how soon after was the purchase made? A.—I see we made our first payment on them on June 11th.

Q.—Have you anything in the files of the company to show when the purchase itself was made? A.—Yes, I think I could find out by looking at

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that docket I spoke of. Probably the approval there would appear later. I think it is there among the minutes.

Q.—It is said that there was no other minute in the minute books until February the 22nd, 1904, when the final \$10,000 of the block of \$50,000 bonds that were authorized were taken from Mr. Beatty, and then this resolution appears in the minutes of the Executive Committee held February 22nd, 1904; present Lieutenant-Colonel Pellatt in the Chair, Messrs. D. B. Hanna, C. C. Dalton, S. G. Beatty, R. L. McLaughlin, the Managing Director, the Assistant Manager. Who would that be? A.—Mr. Robert Junkin.

Q.—And the Secretary, that would be Mr. Winter? A.—Yes.

Q.—The resolution reads as follows: "The purchase of \$10,000 first mortgage five per cent. bonds of the Electrical Development Company of Ontario at 95, and a stock bonus of 90 per cent., being balance of \$50,000 authorized by the Finance Committee Meeting of May 22nd, 1903, was confirmed." So that at the time the first resolution was passed apparently you got only \$40,000? A.—Yes.

Q.—And then you took the final \$10,000 in 1904, and you bought the last \$10,000 from the same person, S. G. Beatty? A.—Yes.

Q.—There is nothing in the resolution to show that is there? A.—In the last resolution?

Q.—In either resolutions; there is nothing in the minutes of your company to show that that transaction took place between the company and S. G. Beatty? A.—I don't know.

Q.—I have read both resolutions; I suppose there is no other resolution or it would have been pointed out to us? A.—I don't know I am sure. I can only speak from what you have read.

Q.—You know of nothing except what I have read? A.—No, I do not.

Q.—Mr. McLaughlin thinks he knows of some other resolution, and I suppose he can look for it. Then at the time the first resolution was passed had you been negotiating then to purchase bonds? A.—No.

Q.—Who brought it before the meeting? A.—I couldn't say that. I think I probably did myself.

Q.—Was it Mr. Beatty? A.—I don't think so.

Q.—Can you say that it was not? A.—No, I could not at this time.

Q.—You have no recollection at all about that? A.—No.

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Q.—Was there any correspondence with Mr. Beatty except the final arrangement, whatever that was? A.—No.

Q.—There would be no offer in writing from him to you? A.—No.

Q.—And there had been no discussion of terms so far as you can remember now before this resolution was passed? A.—No.

Q.—And you don't know who proposed it? I notice that your resolution does not show who was the mover or seconder? A.—No, unless it was some very important matter, if we wanted to keep a permanent record to show who initiated the transaction. Very many of the investments, particularly the bond investments, were initiated by myself.

Q.—The bonds as distinct from what, stocks or real estate? A.—Well, both. The real estate, of course the applications come to us through our agents.

Q.—Then you were intending to distinguish the bonds from the stock I suppose? A.—Yes.

Q.—You say that the suggestion as to investment in bonds would be through you, and who would the suggestion as to the investment in stocks come through? A.—Well, I am not really very much in favor of stocks as an investment.

Q.—I am not asking you that; I am asking who would suggest them? A.—Oh, various members of the Board. I don't know that there was any particular member. Sometimes I would suggest it myself.

Q.—Who would generally suggest it? You say you would generally suggest bonds; that distinguishes the bonds from the stocks, now who would suggest the stocks? A.—I don't know that I could place it on any individual.

Q.—Colonel Pellatt? A.—Sometimes.

Q.—Generally? A.—Well, perhaps oftener than any other individual.

Q.—Who besides Colonel Pellatt would suggest the stocks? A.—Oh, I think perhaps they have been suggested by almost every member of the Board.

Q.—But I suppose no investment in stocks would ever be made without his approval? A.—Without Colonel Pellatt's?

Q.—Yes. A.—Oh, yes.

Q.—There were investments made without his approval? A.—Without

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his being present at the Board meeting at all.

Q.—I suppose that is when he was away, but when he was there he would be the one that would take the most prominent part in discussing values? A.—Yes, he was considered a very good authority on stocks.

Q.—A good man to forecast which way the market would go in all likelihood? A.—Not so much the market, as to what we were doing in these things.

Q.—What the intrinsic values were? A.—Yes.

Q.—As distinguished from what transactions were going on with respect to them? A.—Yes.

Q.—Then you don't remember who suggested the purchase of these bonds of the Electrical Development Company? A.—No, except that the great probability is that it was myself.

Q.—But you cannot remember any previous correspondence about it? A.—What makes me think it was myself, I remember being in Montreal just before this, and having some conversation with people who were intimately associated with the Bank of Montreal, and learning that they were taking an active interest in this concern.

Q.—You remember that that preceded the resolution? A.—Yes.

Q.—So that you say from a visit you had to Montreal, and a talk with certain financial people there, you thought that good judges were buying them, is that what you mean? A.—Yes, that is the idea.

Q.—Had you had anything to do with the purchase of those bonds by Mr. Beatty? A.—No.

Q.—Had he discussed it with you? A.—I had learned in Montreal that he was one of the underwriters.

Q.—Did you know that before you went to Montreal? A.—I am not sure that I did.

Q.—If you knew it before you went to Montreal, you would learn it from Mr. Beatty? A.—Yes.

Q.—Then you cannot say now as a tax on your memory, whether you knew that from Mr. Beatty before you learned it in Montreal or not? A.—No, I cannot.

Q.—Did you know at that time who all the underwriters were? A.—Yes, there was a gentleman in Montreal—well, no, I didn't know all the underwriters, but a gentleman in Montreal showed me a very long list of very substantial men.

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Q.—Who were underwriting the bonds? A.—Yes.

Q.—At what price? A.—I don't know that the exact price was given me.

Q.—That would be a list of these parties of whom Mr. Beatty was one? A.—Yes.

Q.—So that would be the price at which Mr. Beatty got his bonds? A.—At the original underwriter price.

Q.—Now what price was that? A.—I think it was 90, with 100 per cent stock. That of the original underwriters.

Q.—That was the base of the underwriting? A.—Yes, it is pretty well known now in all the financial circles. I don't know that I knew it then, but I do know now that that was the original underwriting price.

Q.—You say you don't know whether you knew that then? A.—Yes, I say that.

Q.—And you don't know how soon you did learn that definitely? A.—No.

Q.—Was the list that was shown to you in Montreal just an underwriter's list of names merely? A.—Not the whole list, some of the men.

Q.—But it was a written list? A.—Yes.

Q.—Were the signatures to some agreement that you saw? A.—No, just merely a typewritten list of substantial men who were taking an interest in this thing.

Q.—Was the underwriting at that time complete? A.—No.

Q.—Were you being requested to underwrite? A.—No, I was being advised.

Q.—You were being offered the opportunity? A.—Yes.

Q.—Was there any limit placed on the amount that you must underwrite if you went into it? A.—No.

Q.—So that at that time, while you were in Montreal, you were being offered the opportunity of underwriting these bonds at 90, and 100 per cent. stock? A.—Excuse me, I have got mixed on the Mexican Electrical Development.

Q.—Well, I want to keep them straight. A.—I had better begin at the beginning again.

Q.—No, we will begin from where you are, and unravel it if it is necessary? A.—It was Mexican bonds that I learned about in Montreal.

Q.—And not the electrical bonds? A.—No, the Electrical bonds I knew about from the beginning. That is, I

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knew the price; the price was 90 and 100.

Q.—Have you mixed your evidence on your prices; was it the same price for the Electrical? A.—The price was the same in both cases.

Q.—So that needs no change, that the price of the Electrical Development bonds was 90 with 100 per cent. of bonus stock? A.—Yes, and I should also make a correction: I mentioned the Bank of Montreal; it was the Mexican stock I was referring to when I was speaking of the Bank of Montreal.

Q.—When you say you had a talk with some financial people, I don't know that we are particularly interested in the names of the persons, in Montreal, the transaction you were referring to was about Mexican bonds, and not about the Electrical Development. Is that what you say now? A.—Yes.

Q.—Then did you have any discussion about Electrical Development bonds? A.—Where?

Q.—Of the same nature that you have been telling us about, any place? A.—Yes, I knew about the enterprise from many sources.

Q.—Did you know about the underwriting of the Electrical Development bonds from any sources? A.—Yes.

Q.—And you knew about it before this resolution was passed authorizing the purchase of \$50,000 of bonds? A.—Yes.

Q.—Where did you learn about it; are you referring now to some particular conversation you had? A.—Oh, no. All the brokers of Toronto knew about it.

Q.—So that the flotation of the Electrical Development bonds was common knowledge at the time? A.—Yes.

Q.—And that was before you were authorized to buy? A.—Yes.

Q.—I suppose there was an underwriting with respect to it, too? A.—Yes.

Q.—And Mr. Beatty, as you have said, was one of the underwriters? A.—Yes.

Q.—Was he one of the underwriters of the Mexican Light and Power bonds? A.—I don't think he was.

Q.—So that his name was on some list of underwriters that was shown to you with respect to Electrical Development bonds, that would be right? A.—Yes.

Q.—And was that in Montreal or Toronto? A.—I am not sure which; I rather think it was in Toronto though.

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Q.—And you were being offered the opportunity of underwriting those bonds at that time? A.—No.

Q.—Why was it being shown to you? A.—I don't know.

Q.—There must have been some occasion when a document like that would be exhibited to you? A.—I applied for some of the underwriting for the Manufacturers' Life.

Q.—To whom? A.—To Colonel Pellatt.

Q.—Then was it Colonel Pellatt who showed you the list of underwriters? A.—I think it probably was.

Q.—And Mr. Beatty was on the list of those underwriters? A.—Yes.

Q.—And I suppose Pellatt & Pellatt, either the firm, or some member of the firm, as well? A.—Yes, they would be.

Q.—Then I understand that you had some talk with Colonel Pellatt about the Manufacturers' Life becoming an underwriter of those Electrical Development bonds? A.—Yes.

Q.—And what was the result? A.—The result of our application?

Q.—No, the result of your talk with him first? A.—I applied for some of the underwriting on behalf of the company, and I don't know whether our application was ever put in or not, but we didn't get any of it.

Q.—Why do you question whether the application was put in? A.—Well, because I don't know.

Q.—Do you know that it was not? A.—No.

Q.—Have you heard that it was not? A.—No.

Q.—Who was it handed to? A.—In fact I remember a conversation now that convinced me that it was handed in.

Q.—Tell us what you remember that would confirm you in that? A.—Well, I was told that Mr. Nicholls was not very friendly towards the Manufacturers' Life.

Q.—Mr. Frederick Nicholls? A.—Yes. And he was either President or Vice-President, I don't remember which, of the company, and was one of the underwriting committee, and he refused to allow us to have any.

Q.—You say you learned that after you had put in your application, that by reason of some possible animosity of one of the committee you were not given any share of the underwriting, is that right? A.—That is the way I understood it.

Q.—But you do say that you tried to become an underwriter of those

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bonds and did not succeed? A.—Yes.

Q.—To what extent did you try to underwrite? A.—\$100,000.

Q.—All for the Manufacturers' Life? A.—Yes.

Q.—Was there any arrangement by which any person should share in that underwriting if it was successful? A.—No.

Q.—Did you put the application in in the name of the Manufacturers' Life? A.—I don't put in a written application at all; I just asked Colonel Pellatt to see that we got \$100,000 of the underwriting.

Q.—And afterwards I suppose it was from Colonel Pellatt that you learned that your application had been refused? A.—I think it was.

Q.—Mr. Beatty, at the time you had the talk with Colonel Pellatt, already had become an underwriter had he? A.—I think so.

Q.—But the list of underwriters was not then complete, is that the idea? A.—It was not complete. In fact I understand it was largely over-subscribed, over underwritten. That I suppose was one reason why we were cut out.

Q.—At any rate you did not get them under the Underwriters' agreement? A.—No.

Q.—It was after that that the resolution was passed at the Board of Directors or the Finance Committee that we have read? A.—Yes, a considerable time after that.

Q.—How long after that do you know? A.—No, I don't. I should say it must have been probably six months after that.

Q.—You think, do you, that underwriting is proper for an insurance company? A.—Oh, in a case of that kind I don't see any objection to it, where we know the concern and know that it is going to be well managed or have reason to believe it will, with substantial men behind it, and the Electrical Development Company, of course you know what it is.

Q.—In respect of that particular company you thought it was all right? A.—Yes.

Q.—Then it would depend, you think, on the particular company? A.—Yes, I would not want to underwrite any concern.

Q.—You think that agreeing to take bonds for a company just commencing is a proper investment for an insurance company under the Act? A.—It depends on the institution, yes, if the chances are good enough.

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Q.—It is just a matter you say of considering the whole aspect of the thing? A.—Yes, if it has in it the inherent power of earning.

Q.—It is sometimes hard to tell where inherent power is present and when it is absent? A.—That is just the crux of the whole situation, in these investments to my mind; it must come down to judgment; the judgment of your Board of Directors. I think this trying to limit companies to this, that, and the other class of securities is all wrong. That is my opinion.

Q.—You think section 50 should be thrown wide open? A.—My recommendation would be—if I were making a recommendation to the Government, or to the Commission for their recommendation—would be to give us a free hand the same as the English companies have, and then the Board of Directors will feel a greater responsibility than they do now.

Q.—And therefore invest more carefully? A.—Yes, I think they would. They would have a wider class of securities to choose from, and I think they would choose better securities.

Q.—We will not go off on that tack just at the present. I am not complaining, but I say I will not follow any further along that, whether I started to lead that way or not, we will drop it for the present. Then when the Finance Committee meet, you know, and Sir Henry Pellatt, and Mr. Beatty knew that Mr. Pellatt and Mr. Beatty were underwriters of these bonds? A.—Yes.

Q.—Was any other Director of your company an underwriter, was any other person that was present at the meeting one of the original underwriters? A.—Yes.

Q.—Who? A.—I was.

Q.—Any person else? A.—No, not that I know of.

Q.—When did you become a subscriber to the underwriting agreement? A.—I was one of the original subscribers.

Q.—At the same time as Mr. Beatty? A.—Probably before Mr. Beatty.

Q.—Was it Mr. Beatty got you in, or you got Mr. Beatty in? A.—No, I didn't have anything to do with getting Mr. Beatty in, and he didn't have anything in getting me in. In fact I think he had very little influence with the Underwriting Committee.

Q.—Other than yourself was there

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any other Director? A.—I think not.

Q.—So we have them all now? A.—Yes.

Q.—You and Sir Henry Pellatt, I suppose, would discuss the underwriting together considerably? A.—Oh, at times, yes, not a great deal.

Q.—And I suppose it was after discussion with him that you decided to go into it? A.—After discussion with him and others. As a matter of fact I discussed the matter more with outsiders than I did with him, because I thought he might be prejudiced in his favor.

Q.—You thought he might be unduly favorable to the enterprise? A.—Yes.

Q.—Why? A.—Because he was largely interested in it.

Q.—So that you sought independent advice, or discussed it with independent persons, but your underwriting was a matter that was subsequent to your general discussion of the situation with Sir Henry Pellatt? A.—Yes.

Q.—And you knew he was going to be an underwriter? A.—Yes.

Q.—And then you both became underwriters, and then Mr. Beatty became an underwriter? A.—Yes.

Q.—And then after you were all in it was that the Manufacturers' Life applied? A.—It was a long time after that, at least several months.

Q.—I mean that the Manufacturers' Life applied for the underwriting? A.—Oh yes, applied for the underwriting, yes.

Q.—Did you then become an underwriter in your own name, or along with some person else in his name? A.—In my own name.

Q.—For how much? A.—\$25,000.

Q.—You had your bonds then at the time this resolution was passed? A.—I am not sure about that. I don't think I had. In fact I can almost say absolutely that I had not them at that time.

Q.—What had happened to them? A.—I had sold them.

Q.—Soon after you had underwritten you disposed of them? A.—Very soon, a few weeks, if my memory serves me right, I didn't hold them more than two or three weeks.

Q.—You say that after Sir Henry Pellatt and you and Mr. Beatty became parties to the underwriting agreement, that the company applied. Now was any resolution passed by any Committees authorizing you to make an application on behalf of the

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company to become a party to the underwriting? A.—I don't think it took the form of a resolution. It was discussed at our Board, and the Board was favorable to it, if we could get it.

Q.—Can you say what particular Board or Committee it was discussed at? A.—No, I cannot.

Q.—Through whom did you sell your bonds? A.—I sold them direct, by private negotiation.

Q.—To any Director of the Manufacturers' Life? A.—No, outside parties who were not even shareholders in the Manufacturers'.

Q.—They did not pass through any broker? A.—No.

Q.—And you found your own purchaser? A.—Yes.

Q.—So far as any Director or officer of the Manufacturers' Life was concerned? A.—Yes.

Q.—It did not come through any Director? A.—No.

Q.—Did you get as much as Mr. Beatty got for his from the Manufacturers'? A.—I did not. I sold them too soon to get that.

Q.—The price in the meantime then between the date of your sale and the date that Mr. Beatty sold to the Manufacturers, had gone up? A.—Yes, people were beginning to feel surer all the time of the success of the enterprise, and the energy with which it was being pushed forward.

Q.—When that resolution was passed by the Board of Directors, you cannot say now whether you had it in your mind to buy from Mr. Beatty or not? A.—Oh I am sure I had not.

Q.—That is to say, you knew he had bonds to sell? A.—Yes, I knew a number of the underwriters, and a number of the brokers that were handling these securities, and my idea from the beginning was to buy these bonds wherever I could get the best terms.

Q.—Was Mr. Beatty at that time offering his bonds for sale through any broker do you know? A.—No, not that I know of.

Q.—He wanted to sell, you knew that? A.—No, I couldn't say that I even knew that at that time.

Q.—What amount had Mr. Beatty subscribed for or underwritten? A.—I don't know.

Q.—You don't know what his holding was? A.—No.

Q.—You don't know what he still holds? A.—No.

Q.—If any? A.—I don't know that he holds any.

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Q.—At the time you purchased from Mr. Beatty had you any correspondence with other persons about buying from them? A.—Only verbally.

Q.—No written correspondence? A.—No.

Q.—And who would you say, verbally, persons who were underwriters or brokers? A.—Both.

Q.—More than one person? A.—Yes.

Q.—What was the best price you had offered to you except from Mr. Beatty? A.—Well, by recollection now is about 15 per cent. less bonus stock.

Q.—The cash payment would be the same, 95? A.—Yes.

Q.—And the bonus stock would be 15 per cent. less than he was offering with his? A.—Yes, I think that is about right.

Q.—Was the price you arranged with Mr. Beatty the first price, or was it the result of negotiation? A.—It was the first price he asked, because I gave him to understand that it could not be a matter of negotiation, that it would not be fair to others that I was trying to buy from, and I was going to see a number of people, and whoever gave me the best figure I was going to buy from them.

Q.—Did he know what prices you had been offered by other parties? A.—No.

Q.—Had you then received offers from others? A.—Yes.

Q.—And did you receive further offers subsequently from other persons? A.—I did.

Q.—And he made his offer 95, and the bonus stock, and you made up your mind to accept it? A.—Yes.

Q.—For how much? A.—I am not sure. I think he only offered me \$40,000 at that time.

Q.—There must have been surely some definite arrangement made, was there not? A.—I always thought myself it was \$50,000 until I saw from the records here that the last \$10,000 was purchased later on apparently.

Q.—How long was there between the first \$40,000 and the last \$10,000, how long elapsed between the two purchases? A.—About eight months.

Q.—So you took \$40,000 and then in about eight months afterwards you took the \$10,000? A.—Yes.

Q.—Seven or eight months. Then was the final ten taken pursuant to the original arrangement, or what?

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A.—I think they must have been. I think the original arrangement was for the \$50,000. I am not positive about that, but that was what was always in my mind.

Q.—Was there any discussion between you and Mr. Beatty as to whether you were entitled to fifty or forty? A.—Oh, he knew what the resolution was, that I was authorized to buy \$50,000. I think the probabilities are, although the records seem to show here that the last \$10,000 were not delivered until 7 months afterwards, but I think the probabilities are that the arrangement was for \$50,000 from the beginning, because at that time I don't think I could have got \$10,000 at that price. I feel satisfied I could not.

Q.—At what price? A.—This \$10,000 was at the same price as the original forty.

Q.—If you were getting the final \$10,000 at less than you could have got them on the market, does not that bring to your mind any discussion you had with Mr. Beatty about that? A.—No, I don't remember this \$10,000 at all. I was under the impression all along that we purchased from the beginning \$50,000.

Q.—But you don't know now whether there was any discussion about that final ten thousand dollars? A.—No, I cannot remember anything about it at all, which convinces me that although there may have been a delay in delivering it, that it was really arranged for from the beginning. I cannot think anything else.

Q.—And then this bonus stock from the Electrical Development Company went into the Prudential Company? A.—Yes.

Q.—Of which Mr. Beatty was one of the Directors? A.—Yes.

Q.—One of the shareholders in the Prudential Company. Did you make any inquiry as to whether those shares of the Electrical Development Company were paid up? A.—These were submitted to our solicitors.

Q.—Do you say that positively as a matter of memory? A.—I know it would be, a new company of this kind.

Q.—You say it would be submitted to your solicitors to approve of before the purchase money would be paid? A.—Yes.

Q.—Then what other bonus stock have you received? A.—Chicago and Milwaukee Electric Railway. \$65,000 of Chicago and Milwaukee Electric, purchased with 10 per cent. stock bonus about the 1st of June, 1904.

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Q.—Who was the transaction put through with? A.—Osborne & Francis.

Q.—As brokers or owners? A.—As brokers?

Q.—For you or for the original bondholders? A.—The bondholders, yes.

Q.—The vendors? A.—Yes.

Q.—You paid no commission did you? A.—We paid no commission.

Q.—The whole transaction then was the purchase of the bonds at what price? A.—At 97 with 10 per cent. stock bonus.

Q.—Was there more than one purchase of Chicago and Milwaukee? A.—No, not with stock bonus.

Q.—You purchased others later did you? A.—Yes.

Q.—Without any bonus. A.—Without a bonus.

Q.—And at what price? A.—At par, in September, the 29th.

Q.—That transaction then would be somewhat different, would it, from the Electrical Development, and the Mexican Light and Power Stock? There would be no underwriting agreement submitted to you there to which you could become a party? A.—No, none whatever.

Q.—You had no discussion about anything of that kind at all? A.—No.

Q.—Could you purchase them at any other place than through Osborne & Francis? A.—No, they were the agents for Canada.

Q.—So that you made a straight purchase from Osborne & Francis of these Chicago and Milwaukee bonds getting a ten per cent. stock bonus? A.—Yes.

Q.—That was in 1904. Was that stock bonus shown in the first return? A.—No.

Q.—Was it shown in the 1905 return? A.—Yes.

Q.—So that that stock has never been shown in any except the last return? A.—That is all.

Q.—Is it shown in the account in which you keep the bonds? A.—There is a memorandum that we have stock here; the particulars would be in the docket.

Q.—Now that page showing the bonus stock that you got with the Chicago and Milwaukee bonds, is absolutely blank, except for the name at the top? A.—Yes.

Q.—Why was that left blank? A.—I suppose the neglect of the clerk that was attending to it.

Q.—When did you know that it was

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blank? A.—I did not know until now.

Q.—You mean since you commenced giving evidence. Didn't you know before that? A.—No, I did not. I certainly did not, and more than that I thought that in each case—of course I cannot give attention to all little details in the office, but I could have gone into the witness box and given evidence to the effect, if I had been speaking from what I thought I knew, that there was a memorandum at the top of the page with each bond as well as in the stock book.

Q.—That is to say your recollection was so clear that you would have stated it as a fact that the stock was shown at the head of every bond statement in your books? A.—Yes.

Q.—It does not appear in any of them does it? A.—One or two I think.

Q.—I did not know that it appeared in any? A.—No, it does not appear in any.

Q.—So that there would not have been a single instance to justify you, would there? A.—No.

Q.—And you cannot say how it is that that page recording the Chicago and Milwaukee bonds or stock is entirely blank? A.—I think it is just a clerk's neglect.

Q.—Was there any doubt as to how much stock you would get with those bonds? A.—No.

Q.—Have you a resolution that there was? A.—I think so.

Q.—Have you any contract with Osborne & Francis that shows? A.—I am satisfied it would be in the minutes.

Q.—Did any other person get any stock with respect to those bonds? A.—Not a cent.

Q.—Not a share you mean? A.—Not a share. I am sure of that. In fact it was only by driving a pretty hard bargain that we were able to get any stock at all. Osborne & Francis thought the bonds were good enough at the price without stock. May 30th, 1904: the Executive Committee. "Purchase of 60,000 first mortgage five per cent. gold bonds of the Chicago and Milwaukee Railroad, payable on the 1st of July, 1922, at 97 and accrued interest with a ten per cent. stock bonus bringing our holdings in this company up to \$100,000, was approved."

Q.—Then that was the second purchase? A.—Yes.

Q.—Had you received a ten per cent. stock bonus on the previous purchase? A.—No, the previous bond

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was a different bond, it was an underlying bond.

Q.—So that this was the only issue of bonds on which you got a stock bonus? A.—Yes.

Q.—What are those bonds worth now? A.—About 101 I think.

Q.—Without any stock bonus? A.—Yes.

Q.—So that they are higher than at the time you bought, apparently? A.—Yes. There were 65 purchased—yes, I remember this now, if you will permit me to explain. I see we sold 3,000. The resolution was to purchase 60, and there was a party heard that we were purchasing these, and asked if he might have 3,000 of them for a private estate, and I applied to Osborne & Francis to see if they could make our amount \$63,000 so that we could pass on the \$3,000 to this party and they said they would rather make it an even amount, either 60 or 65, so we purchased 65, and sold the \$3,000.

Q.—That left your holdings \$62,000? A.—Yes, we sold the \$3,000 at exactly what we purchased them to a gentleman who is in no way, directly or indirectly, connected with the company.

Q.—That left your holding increased by \$2,000 over the amount that was originally authorized? A.—Yes.

Q.—I suppose no new minute would be made for that? A.—I remember explaining to the Board; I don't know whether it was incorporated as a minute or not.

Q.—So that the transaction was put through just in that way? A.—Yes.

Q.—Now, then, has the Manufacturers' Life Insurance Company been a party to any underwriting agreement with stock and bonds or stock? A.—No. Only that application that we made, that was the nearest approach we ever came to underwriting.

Q.—That was as close as you got? A.—Yes.

Q.—And that was to be turned down? A.—Yes.

Q.—That was the only case that you ever made an application for the liberty of joining in an underwriting? A.—Yes.

Q.—The Mexican Light and Power bonds that were underwritten, you were discussing the advisability, were you, of joining the underwriting? A.—Not for the company, no.

Q.—For whom? A.—Well, some friends had been asking me to look into it for them, being at the head of a financial institution they thought I might be able to give them some advice on it.

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Q.—Persons connected with the company? A.—No.

Q.—Then you say, on behalf of some persons who were not at all interested in the Manufacturers' Life Insurance Company, you considered the advisability of underwriting Mexican Light and Power Company bonds? A.—Yes.

Q.—And entirely for other parties, and not for yourself? A.—No, not the original underwriters. It was after they were underwritten and when they got under way and they began active work in Mexico, I purchased some of the bonds with bonus stock for myself.

Q.—Financed in any way by the Manufacturers' Life Insurance Company? A.—No.

Q.—Has the Manufacturers' Life Insurance Company at any time and in any way assisted you in financing your private investments? A.—No.

Q.—No financial assistance from them in any way? A.—No.

Q.—Either by the loaning of money or securities? A.—No, I never had any securities from the company in any way.

Q.—I noticed in relation to the Pellatt matter that you referred to the other day, that securities were put up, and that could be done under your system without any record of the security going out being shown in your books? A.—Well, they would be shown in the memorandum in the vault.

Q.—Oh yes but I mean on your permanent books there would not necessarily be any record of that? A.—No.

Q.—But you say no stocks or securities of the Manufacturers' Life have ever been used in any way to assist you in your private matters? A.—None whatever.

Q.—That is without any mental reservation at all? A.—Yes, absolutely.

Q.—No help from the company privately of any kind, or to any amount? A.—No.

Q.—Has there been any case where securities of the company have been passed out the way they were to Pellatt & Pellatt in connection with the transactions we spoke of on Friday, except in that particular case? A.—No.

Q.—No loan of stocks or bonds has been made? A.—None whatever.

Q.—Either to yourself or to any other directors? A.—No.

Q.—Then in answer to the inquiry as to gifts and subscriptions and other expenses, you say that the donations

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made by the company in May, 1903, were \$500, February 14th, 1905, \$500, and February 15th, 1905, \$500, these gifts being to the National Sanitarium Association? A.—Yes.

Q.—What account are those in, in your books; have you the account here so that you could show me where they are entered? A.—It would be in "Sundry expenses."

Q.—And have you not the sundry expense account here? A.—I don't know.

MR. McLAUGHLIN: We can send down for it and have it here in a few minutes.

MR. TILLEY: They are shown in an account that you called Sundry Expense Account? A.—Yes.

Q.—We need not send for it; I can see it some other time, if we find that it is necessary. But you say that no other gifts have been made by the Manufacturers Life Insurance Company? A.—Absolutely none.

Q.—Every other payment has been for value received? A.—Yes. We believe this one was too.

Q.—I was just going to say, all that you have to say about those payments is set out in the correspondence produced down in Ottawa? A.—Yes.

Q.—You claim at any rate that it is a proper thing in your opinion for an insurance company to subscribe to an institution that has the same objects as the National Sanitarium. A.—Yes, when that is doing so much to reduce the death rate.

Q.—And that was the ground on which you paid it? A.—Yes.

Q.—And all the arguments pro and con on that subject are set out in the correspondence and whether rightly or wrongly you have set out your views there? A.—Yes.

Q.—Attached then I see a statement of the payments out for legal expenses, which do not seem to require any comment at all. Then you have made a return also with respect to salaries and commissions. You have set out the officers' salaries. You have commenced in 1901, that is when the new company was formed? A.—Yes.

Q.—And your salary during 1901-2-3-4 was \$7,500 per year? A.—Yes.

Q.—And then in 1905-6 it has been \$9,000 a year? A.—Yes.

Q.—Is that covered by resolution do you know? A.—Yes.

Q.—The salaries? A.—Yes.

Q.—Could you turn me up the authorization for 1905? Then the Assistant Manager's salary, Mr. Robert Junkin, at present amounts to about

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\$3,000 less than yours, \$6,000? A.—Yes.

Q.—Would that be at the full Board of Directors, or at some Committee? A.—It would be first fixed by the Salary Committee, and then reported by the Salary Committee to the Board, and approved by the Board.

Q.—I think you told us the other day that there is generally a special committee appointed at the end of each year to deal with salaries for the next year? A.—Yes.

Q.—And that Committee makes a report and then does the full Board ratify that each time? A.—Either the full Board or Executive. The Executive is practically the same as the full Board, that is for all practical purposes. It is all the members of the full Board that are likely to attend.

Q.—And then the only other salary of any person in the office that I think it is proper to mention is the salary of Mr. Robert Junkin, the Assistant Manager, which you say is \$6,000 at present? A.—Yes.

Q.—And was \$4,800 for the first three years after the company was formed and then \$5,400? A.—Yes.

Q.—And then \$6,000? A.—Yes.

Q.—Those changes would also be authorized by special resolution? A.—Yes.

Q.—Will you say how the salary you received in 1901 from the New Manufacturers Life Insurance Company compared with the salary you received from the old Manufacturers Company? A.—It was the same.

Q.—How long had it been the same? A.—I joined the company as general manager in May, 1895, and my agreement was \$5,500 a year to begin with, increasing \$500 a year until it reached \$7,500.

Q.—So that it had been \$7,500 before you entered the new company? A.—Yes.

Q.—And then was your brother the Assistant Manager, an officer of the old company? A.—He had been an officer of the old company and had left our service to join the Imperial about the time that the Imperial Life started, as Superintendent of the Imperial, and I think it was about the time of the amalgamation that we secured his services again.

Q.—Then he came back to the Manufacturers' Life about July, 1901, or sometime during 1901? A.—Yes.

Q.—And can you say how his salary compared with the previous salary? A.—With the salary he was getting with our company before?

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Q.—Well, I think it is fairer to say with the last preceding salary he was receiving if you could fix that? A.—I think he was drawing pretty near as much if not entirely as much from the Imperial.

Q.—That salary was not a very great increase you say? A.—No.

Q.—In connection with those salaries did you or your brother at any time receive any commissions on policies? A.—No, none whatever.

Q.—On applications that were sent into the Head Office or at any other office? A.—In no shape or form.

Q.—Can you go and add anything to that? A.—Absolutely, neither directly nor indirectly. I want to be as emphatic as it is possible to make it that neither of us have received a dollar of commission from the Manufacturers Life Insurance Company in any form.

Q.—You have never received anything from the Manufacturers' Life Insurance Company, from the company itself or indirectly through any agents of the company, or from any source of commissions on premiums, except your salaries? A.—In no way. You can turn it in as many ways as you like and I can say no to them all absolutely and positively, directly or indirectly.

Q.—That seems to be coming out pretty strong, Mr. Junkin? A.—That is strong and that is the case. Allow me to qualify that with regard to the old Manufacturers'. I was agent for two years for the old Manufacturers' Life and of course received commissions then.

Q.—You were agent while manager as well? A.—Oh, no.

Q.—That was while you were general agent down in Quebec? A.—Yes, of course I received commissions on that contract.

Q.—Then taking the commissions, salaries and so on, "Fees paid to Directors," I see that in 1901 they amounted in total to \$2,535. and in 1902 they amounted to \$5,823.25? A.—Yes, the first year would be a fraction of a year.

Q.—I assume that that would be so, that the lower amount for the first year, about half, would be by reason of it being a half year? A.—Yes.

Q.—Mr. McLaughlin suggests that there has been no change in the amount payable to Directors for their attendance at meetings since the company was incorporated, is that right? A.—No, it is \$5 for each meeting.

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Q.—And then besides the \$5 for each meeting is there any annual allowance? A.—An honorary fee of \$50 a year.

Q.—Has that been changed? A.—No.

Q.—So that each Director receives \$50 each year because he is a Director and then he receives \$5 in addition for each meeting that he attends? A.—Yes.

Q.—Does that apply to the meetings of the Finance and other Committees? A.—Yes, all the meetings.

Q.—Every Committee meeting or Directors' meeting that he attends? A.—Yes.

Q.—Are out of town members allowed their travelling expenses? A.—Two or three. here? A.—Yes.

Q.—I see you have marked them

Q.—You have marked James Mills, William Strachan, A. J. Wilkes, and two from Quebec as receiving some allowance for travelling expenses? A.—Yes, some small allowance.

Q.—And in the cases of those Directors who were paid their travelling expenses, the highest amount paid to any of them seems to be to Mr. A. J. Wilkes, of Brantford, I suppose? A.—Yes, he attends very regularly.

Q.—I see in 1904 he received \$184.50? A.—Yes.

Q.—Which is the largest sum he has been paid, and other years about \$150 to \$160. The others do not seem to reach that amount. There seems to be a lot of items here of \$50? A.—Well, you see each member gets \$50.

Q.—He gets the \$50 whether he attends or not? A.—Yes. That is a sort of retainer.

Q.—I see that Mr. William Macenzie has been getting his retainer, \$50 per year without any \$5 being added for a meeting. I see some others, R. R. MacLennan has not attended a meeting? A.—No.

Q.—But re-appointed each year? A.—He generally comes to the annual meeting. He is so well satisfied with how matters are going that he does not deem it necessary to come back.

Q.—Then I see that the President's remuneration has been increased recently. What was the amount of the increase? A.—\$500.

Q.—That is to say, in 1904 the amount paid to the President was \$1,095. How was that computed? A.—The thousand dollars is his honorarium and the \$95 must have been for attendances.

Q.—So that in the same way the

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President's allowance for the year would be \$1,000, instead of \$50 to the ordinary Director? A.—Yes.

Q.—And then he would be paid \$95 for his attendance at about 19 meetings during the year at \$5 per meeting? A.—Yes.

Q.—Then you say it was increased by \$500, making the honorarium for the year \$1,500? A.—Yes.

Q.—Was there any particular reason for that increase? A.—No, only the company is growing larger, the responsibilities increasing,—the company has just doubled in size in round numbers since its amalgamation. The responsibilities are greater.

Q.—You think by reason of the larger business transacted and the growth of the company that it warrants the addition of \$500 to the honorarium of the President? A.—Yes.

Q.—In the old Manufacturers' Life the honorarium of the President, Mr. Gooderham, was how much? A.—\$2,000 a year.

Q.—Was he paid for meetings he attended as well? A.—Yes.

Q.—So that the honorarium for this company has not yet reached the honorarium paid by the old company to Mr. Gooderham? A.—No.

Q.—Then the Vice-Presidents, how are they remunerated? A.—They get \$600 each.

Q.—They do now? A.—Yes.

Q.—Apparently always did. I was looking at the first year there and it seemed to be a little less than that, but that was a half year? A.—That was a half year.

Q.—And their remuneration has not been changed, being \$600 a year for each of the two Vice-Presidents and \$5 for each meeting? A.—Yes.

MR. SHEPLEY: Mr. Junkin, I want to ask you a question or two with regard to some documents that have been brought here this morning and which are supposed to throw light upon a matter that was mentioned in the report made by Mr. Blackadar upon his inspection for the year 1900, which has already been touched upon. That is the payment to Mr. Gooderham of some \$34,000. What is this first paper? A.—I have not had time to study this as carefully this morning as I would like.

Q.—Look that over. I will give you time to refresh your memory. A.—This is an agreement signed in 1891. That was before my time with the company. It is between the Manufacturers' Life and Mr. George Gooderham, by which it would appear that

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the Manufacturers' Life had purchased the renewal interest of certain agents amounting in all to \$30,000 and Mr. Gooderham repurchased it from the company for the same amount, paying in \$30,000 to the funds of the company.

Q.—In the first place this appears to be a copy only? A.—Yes.

Q.—Is the original in the possession of the company? A.—I think that it is altogether likely that it is.

Q.—I would like to have that looked up. It is an agreement of the 17th of December, 1891, between the Manufacturers' Life and George Gooderham. "Whereas the company have commuted certain agents collection commissions on future premiums on their policies and the said Gooderham has agreed to advance or pay the sum of \$30,000 paid by them for such future commissions, particulars of which are set out in the schedule hereto." There is no schedule to this perhaps the original when you produce it will have the schedule. That means that the company have agreed to commute the rights of certain agents to receive commissions for the future upon business which they have controlled, for the sum of \$30,000 in all? A.—Yes.

Q.—That is the company required to have \$30,000 with which to make the commutation? A.—Yes.

Q.—And then the recital is that Mr. Gooderham has agreed to advance that amount to the company? A.—Yes.

Q.—With which the company shall make the commutation. A.—Yes.

Q.—"Now it is declared and agreed that the said commuted commissions shall be applied from time to time in or towards payment of the said sum of \$30,000 with interest as and when the premiums are collected in respect of which the said commissions are to arise and so from time to time until the said \$30,000 be fully paid, with interest at 6 per cent. payable half yearly in June and December in every year, and the company agrees to pay over to Gooderham as and when the same become payable the commuted commissions aforesaid until the said sum is fully paid." Did Mr. Gooderham, so far as your records show, advance the \$30,000 as the agreement states? A.—Yes.

Q.—And then how long did it take to pay off the \$30,000 out of the commissions as they came in? A.—They were not paid very regularly

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and when I came to the company I found matters in that state. Mr. Gooderham had received back a certain amount.

Q.—What was not paid regularly? A.—These commissions.

Q.—To him do you mean? A.—Yes.

Q.—Or by the people who paid the premiums? A.—To him.

Q.—They had not been paid regularly by the company to him. The premiums themselves have been coming in of course? A.—Yes.

Q.—But you say that the amounts of the commissions commuted had not been regularly deducted and paid over to Mr. Gooderham? A.—Yes, and when I came to the company as Manager—

Q.—In '95? A.—In '95, yes, I think there had not been anything paid for sometime, a year or so, and as the matter had been running behind we continued to let it run behind until I think it was in about the year 1899 we decided to repay or pay off the whole matter in a lump sum.

Q.—Then we will come down to 1899. What was the reason that you did not take the matter up and see that as the premiums came in the commissions were deducted and paid over? A.—Largely because it required so much clerical work to go into the matter and calculate these commissions and I felt this way about it that it was money the company owed Mr. Gooderham and had to be paid sometime and it didn't make very much difference when it was paid.

Q.—Is there anything in this, that as events turned out the commissions would not have been earned up to the full \$30,000? A.—I never went into it carefully enough to know. In fact I cannot say that I ever went into it at all.

Q.—Then you are not able to tell me that there ever was a fund within the meaning of this agreement out of which the \$30,000 could be paid? A.—No, I cannot say that there was.

Q.—Of course you quite see that the \$30,000 was to come out of that and out of nothing else? A.—Well, it would seem so, legally.

Q.—And if the commuted income did not produce the \$30,000 there was no fund for the payment of the money. That is right isn't it? A.—That would seem to be right.

Q.—Then, not because it seems to have anything to do with it, but

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because these documents have been given to me, I ask the next thing, was it all paid that appears here? We will get what took place in later years further on. This purports to be an extract from the minutes of a Directors' meeting held on the 28th of March, 1895, before the annual meeting. "It was moved that the following by-law be added to those of the company. The Directors of the Manufacturers enact as follows; that George Gooderham, Esq., the President of the company shall receive for his services as President an honorarium at the rate of \$2,000 per annum, to date from the 1st of January, 1895, to be paid out of the compensation provided from time to time for Directors." Was that the first occasion upon which Mr. Gooderham was paid an honorarium? A.—Yes.

Q.—He had given his services for nothing before, or had he received Directors' Fees? A.—Just Directors' Fees, \$5 a meeting.

Q.—"To be paid out of the compensation provided from time to time for Directors." What does that mean? A.—Well it really means that it would be included in the returns to the Government as Directors' fees. It would be added to the total of the \$5 paid to Directors and it would all be paid as Directors' Fees.

Q.—That was the intention of that. I am glad to have you tell me that, but that is not exactly what I was asking. What does "Compensation provided from time to time for Directors," mean, because that is the fund out of which this \$2,000 is to be paid? A.—I don't know why it should be drawn in that way, except the idea was in the mind of whoever drafted it, that from time to time during each year there would be a certain amount set apart for paying Directors' fees. As a matter of fact that is not really how it is done, because the amount of the fees—

Q.—Is not ascertained until the end of the year? A.—Until the end of the year, yes.

Q.—That of course does mean that it was an immediate addition to any provision that had theretofore been made of \$2,000 a year? A.—Yes.

Q.—Then I pass on to the next document, which seems to be a minute of the Executive Committee held on the 30th of December, '97. There is a laudatory recital with respect to Mr. Gooderham's services and assist-

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ance to the company, and the company is desirous that he should still continue to take an active interest in the company. "Therefore be it resolved that the annual honorarium to the President be increased from the sum of \$2,000 to the sum of \$5,000, such increase to take effect from the 1st of January, 1898, and to be payable quarterly during his lifetime." What do you remember about that? A.—Well, my recollection of that is that the extra \$3,000 a year was intended as a means of repaying him this \$30,000, this advance that he had made or the balance of it, whatever was then due him.

Q.—Mr. Gooderham was then in the prime of life was he not, almost? A.—No, I should say he must have been nearly 70 years of age.

Q.—At all events his mental and physical vigor did not seem to be very much impaired at that date, did it? A.—No.

Q.—And the recital is that the company is desirous to have him continue his interest in the company, to take an active interest in the company. That recital you think was probably intended to politely cloak the real intention? A.—It looks like it.

Q.—Was there even at that time any discussion as to whether or not there was any fund or ever had been any fund out of which he could properly be paid the balance of the \$30,000? A.—No, that feature of it was not discussed very much. The way the Board looked at it was that he had practically made the company an advance in its early days to help to secure business and keep the company in good shape.

Q.—He had made his bargain? A.—And that there was a moral obligation to repay him as soon as the company was in a position to do so in some form.

Q.—And that moral obligation took the form of an increase of \$3,000 a year? A.—Yes.

Q.—At that time was there any account taken of what was due him, even assuming that the company owed him anything? A.—Yes.

Q.—Can that be found? A.—I don't know, I'm sure, whether it could be.

Q.—There is a subsequent account here but it is dated January, 1900, and this is December, '97, so that could not be it? A.—No, that would not be it. We can ascertain exactly what was due him, whether we can lay our hands on the account that may have been made out just at that

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particular time or not I don't know, but the books will show what was due him.

Q.—Get that if you can and let me have a reference to the books that will show just what was due him. Then the next document in point of date that is given me is dated the 3rd of January, 1899, and seems to be an agreement between the Manufacturers' and Mr. Gooderham, with a good many recitals in it, but we had better look at them all. Then you can tell me, has this reference to the transaction you have been speaking of? A.—Yes

Q.—“Whereas George Gooderham advanced certain moneys to the undersigned Manufacturers' and took as security a transfer of certain commuted agents' commissions.” Now, that is only a partial statement of the fact is it not? A.—No, that is practically the same I think.

Q.—I think not. There was no other fund, there was no personal liability on the part of the company to repay him, you will remember in the early agreement all he was entitled to do was to resort to the commuted commissions. He had that right anyway. Then we will pass on. “And whereas the company have not repaid to the said Gooderham the moneys to which he is entitled by virtue of the commuted commissions agreement and the said Gooderham has demanded, as it was understood he should be entitled to do, a further assignment of all agents' commuted commissions now in existence.” What do you say to that; had there ever been, as far as you are aware, any such understanding? A.—No, not so far as I am aware.

Q.—“And whereas the Insurance Company have placed a large amount of business on the books of the company on a brokerage basis,” “And a large amount of the business of the company has been placed upon the books of the company by agents who have received salary.” That means that there is a large amount of the business upon which commissions are not payable? A.—Yes.

Q.—“And whereas a large amount of business has been placed upon the books of the company by agents of the company who are entitled to an interest in renewal commissions, and arrangements have been made with such agents whereby the company have acquired the right to such renewal commissions.” That means that you had arranged with certain of your agents who were entitled to com-

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missions out of renewals, to forego those in favor of the company? A.—Yes.

Q.—So that the company was entitled to them? A.—Yes.

Q.—“And whereas the company from time to time becomes entitled, from lapses, surrenders, etc., to a certain interest in policies over and above what they have been required to set aside as a reserve.” That means that in the ordinary conduct of the insurance business surrenders and lapses are a source of revenue to the company? A.—Yes.

Q.—“And whereas the company have agreed to assign” and so on to the said Gooderham, the company then assigns, “all our right, title and interest in the moneys or claims which really now belong or hereafter shall come to the company on account of any matters hereinbefore recited.” That is your rights to commuted commissions in addition to the commuted commissions that he had a security on? A.—Yes.

Q.—What rights had you in respect of brokerage business and salaries business? A.—Well, that was referred to as business the future premiums on which would be paid into the Head Office.

Q.—Were these intended to be assigned by this to Mr. Gooderham? A.—Yes.

Q.—The whole premium was assigned? A.—Oh no, not the premium; what would ordinarily be commission.

Q.—That is not actually expressed in that way, but that is what you intended it to mean? A.—Yes.

Q.—And it is everything in the nature of renewal commissions which agents had given up to the company? A.—Yes.

Q.—And everything that you got by virtue of lapses and surrenders, these were all transferred to Mr. Gooderham absolutely? A.—Yes.

Q.—Then there is a provision that the agreement is to be void on payment to Gooderham of the sum of \$20,500, together with interest half-yearly at the rate of four per cent. from the 1st day of January, 1899? A.—Yes, that was the balance due Mr. Gooderham at that time.

Q.—Was an account then taken? A.—Yes.

Q.—He was then to receive all these moneys as they came in until he was paid \$20,500? A.—Yes.

Q.—And you could pay that at any time and stop it? A.—Yes.

Q.—Then the matter goes on for another year, and in January, 1900,

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on the 21st day of the month, this seems to be an extract from the minutes of the Board. "Re advances made on account of commuted commissions by certain Directors. This matter was discussed, and it was decided to repay these advances forthwith." And at this same meeting, "the issue of new stock at a premium of \$12 per share was authorized," That is in respect of your amalgamation? A.—Yes, that \$12 per share just came to sufficient to repay these advances.

Q.—The payments were made as follows, "George Gooderham \$39,044.72." How had it grown in a year from \$20,000 up to that? A.—That included another \$20,000 which he advanced the company in connection with a loss on an old mortgage that was made sometime in the early history of the company, and on which there was a loss of \$20,000.

Q.—Had this all been actually done and the moneys paid over to these gentlemen before this minute was made? A.—Oh no, these payments were made afterwards.

Q.—And this was intended as an authorization to make these payments? A.—Yes, and the stock was called up for the purpose of making these payments.

Q.—The minute does not say so, but that was the reason for calling it up? A.—Yes, so that it was really paid by the shareholders paying a bonus on the new capital.

Q.—Then there is no reference here to any further advance that Mr. Gooderham had made—in terms? A.—No, not in terms.

Q.—When had the advance been made, between those two dates, between January of '99 and January of 1900, do you remember? A.—No, I don't remember.

Q.—Do you think it was between? A.—No, I could not tell offhand. That is where Mr. Gooderham took the property over, \$60,000; that is he paid the company \$60,000 for the property which we foreclosed, the understanding at the time being that the value of it was only \$40,000. Even that was considered a good deal more than we could get from any other source if we had to go on the market with the property and sell it at that time; the estimate was that we would get about \$20,000 for it.

Q.—Then I would like to know what was that Leslie mortgage, what did it cover substantially? I don't want it

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with exactness. When had the money been advanced on the Leslie mortgage? A.—Oh I should think the year '89. I would not be sure about that, but that would be very close to it, '89 or '90, and before my connection.

Q.—What amount had been advanced? A.—I think about \$60,000.

Q.—Where was the property? A.—It was down in the east end, the Leslie nurseries. Part of it was the Leslie nurseries and part of it was on the north side of Queen Street.

Q.—And at the time of the loan had Mr. Gooderham any connection with the company? A.—Yes.

Q.—Was he the President of it? A.—He would either be President or Vice-President.

Q.—Then the property had been on your hands and you had foreclosed it? A.—Yes.

Q.—And there was due something more than \$60,000 to make you clear? A.—Yes.

Q.—Now if I understand this minute with that preface, the position of the mortgage account was discussed, the valuations were considered, and Mr. Gooderham offered for the whole property the sum of \$60,000. That is right so far is it? A.—Yes.

Q.—And then the company decided to take \$60,000, convey him the property and write off the balance over and above the \$60,000 which the property had stood them? A.—Yes.

Q.—That is accurate is it? A.—As far as it goes it is.

Q.—Is there anything to add to that? A.—Yes.

Q.—I am speaking now of this minute, and what it indicates. A.—Well, this is the first time that I have looked up this minute for a good many years, and I did not remember just how the minute was drawn, or whether this matter is referred to in another minute or not, but certainly the agreement was that Mr. Gooderham was to get back \$20,000 as soon as the company was in a position to pay him. In other words that \$20,000 was to be added to his commuted commission account.

Q.—Then you were writing off \$20,000 in addition to the surplus over the \$60,000? A.—Yes.

Q.—Why is not that mentioned here? A.—I don't know. I thought it was in that minute, or in some minute.

Q.—That was to be added to his commuted commission account? A.—Yes.

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Q.—Now the date of that minute again? A.—The 12th of January, '98.

Q.—With that in mind let us go back. I think you will find that that is the date of the approval of the minute, and that it is really the 30th of December, '97? A.—Yes, you are correct.

Q.—That was the same date upon which the laudatory resolution was passed and the honorarium was increased. It follows on after that? A.—Yes, I see it is.

Q.—Now in the light of that do you wish to revise or add anything to what you have told me with regard to the meaning of that increase of honorarium? A.—Yes, that brings to my mind the fact that the honorarium was intended as a repayment, whether it was simply as a repayment of this \$20,000 or of the whole account due him I couldn't say offhand, without looking into it.

Q.—You cannot recollect? A.—No.

Q.—Is that what you spoke of a few minutes ago as an advance of \$20,000? A.—I don't remember in what connection I used that.

Q.—When I was asking you how the account had grown from \$20,000 to \$39,000? A.—Yes, that is how it occurred.

Q.—That is how it had grown? A.—Yes.

Q.—By taking into the account \$20,000 which was not mentioned in the resolution? A.—Yes.

Q.—Now you are quite clear about that? A.—Yes sir, quite clear. The only point I am not clear about is as to whether this additional \$3,000 honorarium was considered sufficient to reimburse him for the whole \$39,000 or simply for this \$20,000.

Q.—Something had been paid on account in the meantime, because it was \$20,500 in respect of the old advance, and on the taking of that account it would be \$40,000, so a little would seem to have been paid during the year? A.—Yes.

Q.—Then in pursuance of this authorization at the meeting of 21st January, 1900, was Mr. Gooderham paid his \$39,044.72? A.—Yes.

Q.—And the other gentlemen named were paid the advances named there too? A.—Yes.

Q.—We have not heard about these gentlemen, but were their advances made on commuted commissions also? A.—They were all done at exactly the same time, and in the same way. The

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amount as mentioned is \$30,000 of Mr. Gooderham's. I think that \$30,000 originally was the total amount.

Q.—You think he underwrote some of that? A.—Including these others, I think he took the debt off their hands.

Q.—You think he was entitled as between himself and them to receive everything that was paid? A.—Well now I perhaps am wrong there. I think I am. These gentlemen remained in the same position.

Q.—But they had advanced money to enable you to carry out the commutations with your agents away back in 1901? A.—Yes.

MR. McLAUGHLIN: '91 of course is before Mr. Junkin's time. He can only speak from what he has heard.

MR. SHEPLEY: In 1900 you were not taking part in this piece of business without satisfying yourself that you knew something about it, its origin and its history? A.—Yes, I knew pretty well about it at the time. Of course it is difficult for me to remember the details now.

Q.—I am not criticising your memory at all. I think it is very excellent, Mr. Junkin. Then on the 15th of March, 1900, it was moved by Mr. Lennox.

MR. McLAUGHLIN: That was at the annual meeting of the company.

MR. SHEPLEY: That does not appear in the paper given to me, but let us have the minute itself. On the 15th of March at the shareholders' meeting, I will read from this in my hand, and you will follow this. "It was moved by Mr. Lennox, seconded by Mr. Mills, that whereas to make good certain loss on investments" (reads to "that the action of the Board in making such payments be ratified and approved and that the payment of the balance so remaining unpaid be authorized.") A.—Yes, that was a general meeting of shareholders.

Q.—The remaining balance of \$39,044 to Mr. Gooderham, and \$893 to Mr. Warren, on the 22nd of January, and the balance of \$3,500 still unpaid? A.—Yes, that is correct.

Q.—Then let us sum up the transactions to the present moment. Originally there was a fund out of which Mr. Gooderham was entitled to receive \$30,000. That is right so far? A.—Yes.

Q.—Whether or not that fund ever came into existence so that he could draw upon it, you don't know? A.—No, and I might remark about the

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\$30,000; I might add the words "and others." Although in several places it is spoken of as Mr. Gooderham, it was Mr. Gooderham and others.

Q.—During Mr. Gooderham's presidency of the company, while he was connected with it in that way, a loan of \$60,000 had been made upon property which turned out afterwards to be insufficient? A.—Yes.

Q.—Causing some loss, whatever it may have been, in any event, over and above the \$60,000? A.—Yes, that was written off.

Q.—There was a resolution which authorized the sale of the property out and out to Mr. Gooderham for \$60,000? A.—Yes.

Q.—Nothing in the resolution about charging back upon the company the \$20,000? A.—No, that was supposed to be covered by the additional resolution giving him the additional honorarium of \$3,000 a year.

Q.—The resolution giving him the honorarium is silent upon that? A.—Yes.

Q.—And then in 1900 both sums, or what had not been collected in respect of them by Mr. Gooderham, were actually paid to him? A.—Yes.

Q.—And paid to him in cash? A.—Yes.

Q.—Do you say that the company foreclosed or that Mr. Gooderham foreclosed? A.—The company, I think, foreclosed.

Q.—Was the mortgage standing in Mr. Gooderham's name? A.—Not that I am aware of. I don't think it was. Oh, no, it would not be. It was a regular company mortgage.

Q.—Because I see a suit of Gooderham v. Leslie in your legal expenses for 1901 in respect of which certain costs were paid by the Manufacturers' to the solicitors for the Manufacturers, who were then Messrs. Beatty, Blackstock & Co. Was not that in respect of this property? A.—I had not noticed that. I could not make any explanation of that without looking it up.

Q.—Then I won't delay you with that. Then is this the account that Mr. Gooderham made up for your dealing with him by that resolution of January, 1900? A.—That looks like a memorandum made up in our office, judging from the writing.

Q.—This seems to be a copy of it? A.—Yes.

Q.—The exact sum is that named in the resolution, \$39,044.72? A.—Yes.

Q.—I see you paid Mr. Gooderham the \$20,000 not out of honorarium

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at all, but in cash with two years' interest at four per cent? A.—The honorarium was paid for about a year, and then in adjusting the account later that was taken into consideration, and the amounts paid him as honorarium were deducted.

Q.—I would rather you would not speak hastily about that, because the account does not indicate anything of the kind. It may be quite right, but upon the face of the account it agrees entirely with the account that you have given me? A.—Well, here are the deductions, \$750. His honorarium was paid him quarterly. There is four quarters of \$750 each.

Q.—Then you may be quite right; four times \$750 would be \$3,000? A.—Yes, and the company is also given credit for the interest on those as well.

Q.—So he gets interest at 4 per cent. on his \$20,000 and you get interest upon the payments of honorarium, which he credits back? A.—At the same rate, yes.

Q.—I am not quite through with the subject, but I am coming to another document, so perhaps it will be convenient to adjourn.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., Tuesday, May 1st, 1906.

MR. SHEPLEY: Q.—When Mr. Blackadar made his inspection, with which I opened this branch of the examination, in the early part of 1901, he stated there was an item of \$43,234.56 of cash paid out to Mr. Gooderham; is that arrived at by adding together the \$3,500 to Mr. Warren and the \$39,000 to Mr. Gooderham? A.—Yes.

Q.—Mr. Blackadar's memorandum goes on to state that this cash was not entered in the statement of expenditures either in the Government statement or in the Company statements, was that correct? A.—In the published statements, yes. We thought as it was being paid in by the shareholders according to resolution at the annual meeting it was not necessary to enter it either way.

Q.—Were not the shareholders in your view entitled to know what became of the money they paid in for their stock, is that your idea? A.—They knew by the annual meeting, the minutes of the annual meeting

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would show just what was done with it.

Q.—I don't suppose the shareholders read the minutes of the annual meeting, but they may read the statements you put out, at all events it did not appear? A.—No.

Q.—And it did not appear in the Government statement? A.—No.

Q.—Will you let me see where that appears in the books of account of the company? A.—It was put into the Government statement afterwards, Mr. Blackadar made his—

Q.—Did it appear in your books anywhere before the Government made a fuss about it? A.—Oh, yes.

Q.—That is what I want to see first? A.—(Turns up account on page 117.)

Q.—What is this account that is called stock premiums? A.—That is the premium of \$12 per share that was paid in on the new capital, that was called up for the purpose of paying this off, so that it was really paid off by the shareholders in that way.

Q.—That was the \$12 per share that was called? A.—Yes. In that way not a dollar of it came out of the policyholders.

Q.—At all events you seem to have received in calls \$43,608? A.—Yes.

Q.—And then that is carried to profit and loss, \$43,608? A.—Yes.

Q.—Then where does it go? A.—(Turns to account on page 60).

Q.—Commissions account and Leslie Mortgage account, to cash \$801? A.—That was the amount paid Mr. Warren.

Q.—To G. G. A.—That is Mr. Gooderham, —\$39,000; then why S. F. McKinnon \$2,000 and also \$2,500? A.—The total was evidently \$4,500.

Q.—It is not so stated in the minutes.

Q.—Mr. Winters says just \$2,500? A.—\$2,000 on both sides I see.

Q.—Those may be cross entries, can you explain that? A.—I cannot explain that.

Q.—There is a considerable space of time between the two entries, the cash is charged on the 27th January, \$2,000, S. F. McKinnon, and on the 6th April that \$2,500?

MR. WINTERS: And \$2,000 was paid back.

MR. SHEPLEY: Can you recall whether that represents a real transaction or is it an error in the book? A.—It must be an error, unless it was paid in advance to Mr. McKinnon and entered—I do not under-

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stand the entry at all, it is evidently just a book-keeping entry, and I am satisfied Mr. McKinnon only received his \$2,500.

Q.—Then Mr. Patterson's is charged at \$1,000, on the 10th April, the total, including the \$2,000 improperly there is \$45,346.64; that should be reduced by \$2,000 to arrive at the correct amount? A.—Yes.

Q.—On the other side of the account there is the cross entry, \$193 by commission, and by commission \$110.16, what is that? A.—I don't know.

Q.—Is that the same item as appears in this account as interest, \$110.16, January 1st to January 26th? A.—Yes. The whole matter went through to commission, commuted commission account.

Q.—Out of the balance carried to profit and loss from the stock premium account the result is to deduct from that balance \$193 and \$110, leaving profit and loss account \$43,234.56, which is the amount mentioned in Mr. Blackadar's memorandum? A.—Yes.

Q.—Are those the only places in your bookkeeping that these matters appear? A.—They would appear in the cash book.

Q.—But this would be taken from the cash book, and it is not different in the cash book from what it is here? A.—No, it is the same.

Q.—And that is the only place? A.—That is all.

Q.—The explanation that seems to have been given to Mr. Blackadar was not as full of course as the explanation you have given us to-day: "It is said to be a repayment to Mr. Gooderham of moneys or securities he advanced the company to make good bad assets of previous years, for instance, he took a piece of real estate off their hands at the company's account value, \$60,000, which was considered worth \$40,000; he also paid into the company the bad debts of Bessey and Bain;" I have not heard anything from you about that to-day? A.—That seems to be how this commuted commission account originated. The company in the early days considerably before my time, advanced money to these agents to help to develop their agencies—

Q.—These were agents? A.—Yes; the company advanced them money to help to develop their agencies, taking a lien on their future commissions, and they turned out in the end not very successful agents, and

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the company had to take over these accounts.

Q.—That is the company had to take the debt that was due in respect to advances made to the agents? A.—Yes.

Q.—Were these the only two that are covered by that first commutation? A.—I never really went into that part of it, I could not say.

Q.—At all events the advance to the company as against these two agents, \$30,000 or thereabouts? A.—Yes.

Q.—And the company commuted their rights to future commissions, or went through the form of doing that; was their right to future commissions worth anything like \$30,000? A.—I don't know.

Q.—What do you say if they were not successful agents? A.—I should not think so unless they had very large agencies.

Q.—That was just a method adopted for the moment temporarily of putting the company in the position of having got this advance back? A.—Yes, if you will allow me to explain I will start at the beginning and start to explain how this condition of affairs—

Q.—Have you been refreshing your memory during the interval? A.—No sir, it is not back so much as how this condition of affairs arises with a young company.

Q.—It had arisen, I can quite understand that a young company as a pure matter of business may make an advance to its agents? A.—Yes.

Q.—But what I cannot understand is how two unsuccessful agents could possibly earn, with their want of success, earn a right to receive in the future any such sum as \$30,000? A.—I think there must have been others. The position was this, that the company in the first year or two of its history did a very large new business, and on account of the system of reserves adopted by our standard, the legal reserves required, a company cannot do that without seriously impairing its capital; for instance, supposing a company writes four millions of business the first year of its history at an average premium of \$30, that equals a premium income of \$120,000. It will cost that company all of that \$120,000 and a good deal more, and no matter how carefully and economically its affairs have been managed it will certainly cost it \$120,000. Supposing it cost it \$150,000, even then it would be carefully

managed. Notwithstanding the fact that they have paid out their entire premium income and \$30,000 more, they are charged with a liability on that business; they require to account for the reserve; the reserve on that we will say is an average of \$15 a thousand, on four millions of business that would be \$60,000 of liability that they have piled up, plus the \$30,000 they have paid out in expenses, and there is \$90,000 of deficiency in the first year. As a matter of fact the first full year's business of the Manufacturers' Life was about four million, I think it was over four million, and consequently there was an impairment of capital, and naturally the second year there was. The only way of avoiding that is for a company to call up its capital at the beginning with a good large premium on it, creating a fund in addition to their capital, a fund to buy new business; for instance if the paid-up capital is \$100,000 they certainly ought to at least call it up to a premium of 100 per cent., that is make it 200, that is to suit the legal requirements of our insurance law.

Q.—This is a very large subject, and I have not come to it yet. I am going to discuss that subject very fully with you. I think we shall perhaps not quite agree as to the method of doing that. I can quite understand in the early history of a company when it is writing new business on more than the premium income there must, in order to establish the reserve, be an impairment of capital—I don't care whether it is premium or not, the capital is impaired? A.—Yes.

Q.—The premium is capital just as well as the 100 per cent? A.—Yes. I will try to apply it to this case, although I was not responsible for it. There certainly was a large business done for the first two or three years, and was certainly a very large impairment of capital, and the shareholders came forward first and paid in a bonus of \$18.05 per share on their capital they had already paid in—the paid-up capital was \$127,000, they came forward to make payment, amounting to \$100,000. It was found after that was done there was still an impairment, and these directors came forward and said, "We cannot very reasonably go to the shareholders again, they have put up like men, and we will pay in this ourselves and put the company in a good financial shape to go out and do business among the best of them," and they paid in this \$30,000,

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taking supposed security on these commissions—

Q.—Just stop there; there was no substance or reality in the figment about there being commuted commissions to the tune of \$30,000, is not that right? A.—I don't suppose there was, there was a certain amount of substance to it.

Q.—You agree that it was quite impossible to contend there was any such asset on hand? A.—I never went into the matter really to find out.

Q.—But with your experience you cannot have any hesitation in saying Yes to that? A.—I would not suppose in that stage of the company's history that the agencies would be large enough and old enough, that the commuted commissions would represent the full \$30,000.

Q.—I want to ask you to guess at what proportion of it may have been real, but at all events the \$30,000 as a whole was not a real thing? A.—I would hardly suppose so.

Q.—That figment of asset of \$30,000 was made use of for the purpose of doing what you say, getting some substance for the directors' advances—the \$30,000? A.—Yes.

Q.—And it was understood that that was an advance made for the purpose of getting over the difficulty you spoke of in the early history of the company? A.—When I came to the company that is what I was given to understand.

Q.—Where you are speaking of things that existed before you can only be speaking of hearsay? A.—On my understanding.

Q.—Then is it not a fact that in the subsequent resolution it is stated there never was any obligation on the company to re-pay these directors, is not that probably true? A.—Well, I do not know as it puts it as strong as that, I do not remember the resolution.

Q.—Is not that resolution probably true, whatever it says? A.—I should think it was, it was prepared by our solicitors at the time very carefully.

Q.—When the agreement was made with Gooderham enabling him to resort merely to this figment of a fund and not enabling him to involve the personal obligation of the company did not that mean what it said? A.—I do not quite catch your question.

Q.—You have told me that at all events to a substantial extent there was no such security as \$30,000 in the

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asset that was spoken of? A.—Yes, I have doubts if it reached that amount.

Q.—You have also told me this morning that Mr. Gooderham's right, as you read that agreement, was to resort to that fund, and to that fund only? A.—Well, that is really a question for a legally trained mind to decide.

Q.—That is the reason I put it to you, and I understood you to agree with me, that that is what the agreement seemed to imply? A.—I would rather leave that to the solicitors to decide, because in interpreting agreements really as a matter of experience I have hardly ever met two solicitors that would agree on the interpretation of any agreement.

Q.—What about two insurance managers. A.—They agree oftener than the solicitors do on such matters.

Q.—"It is declared that the said commuted commissions shall be applied from time to time towards payment of the said sum of \$30,000 with interest," that is all there is about that at the meeting of shareholders. Mr. Lennox moved, seconded by Mr. Mills, "That whereas to make good certain losses on investments"—that was not right, it was not losses on investments? A.—A very large part of it was. \$20,000 anyway.

Q.—"Kindly provided company with moneys on such terms that the company was under no obligation to re-pay same unless and until the Board of Directors felt that it was in the interests of the company to do so" we will let that speak for itself. There was just one other question, while all this was going on Mr. Gooderham was under agreement with Mr. Cox to sell him all his stock, was not he? A.—Yes, I believe at that time.

Q.—Because the agreement between Mr. Gooderham and Mr. Cox is dated 1st December, 1898? A.—I never knew the exact date of it, it was somewhere around in that neighborhood.

Q.—This is the original document? A.—I have never seen that except in this box.

Q.—Then Mr. Blackadar's memorandum goes on: "There being some agreement by which he (that is Mr. Gooderham) was to receive renewal commissions out of premiums paid direct to Head Office"—that is right? A.—Yes.

Q.—"I think the item will have to appear in our statement, otherwise there will appear a large deficiency of assets not accounted for. A state-

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ment of the transactions is being made up for us and will be ready Monday, in the meantime do not have the sheet printed off"—did you find among the papers the statement that was made up for Mr. Blackadar in the spring of 1901? A.—It will be a copy of these two accounts, I understand from Mr. Winters these two ledger accounts.

MR. SHEPLEY: I put in the minutes, the agreements and the accounts to which reference has been made on this subject this morning. (Marked as Exhibit 65.)

Q.—Could you, with a little reflection or a little investigation, find out what those costs, Gooderham v. Leslie, that I pointed out to you in your expenses for 1901, were? A.—I had an opportunity of looking the matter up to some extent and I find the mortgage was in the name of the Manufacturers' Life, and that the probable explanation of the name Gooderham in connection with those expenses is that another Mr. Gooderham, Mr. Robert Gooderham, had a second mortgage on the property and we had to foreclose him as well as Leslie.

Q.—The suit seems to have been Gooderham against Leslie? A.—I think that is a mistake of the typewriter, I think it should be Leslie and Gooderham instead of vs. Gooderham.

Q.—Were you interested enough in this property that Mr. Gooderham eventually got from the Manufacturers' for \$40,000 to find out what he did with it? A.—I think they probably have it yet, I am not just sure about it.

Q.—You probably are not able to put a value on it to-day? A.—No. I questioned a number of real estate men at the time, and there were none of them thought it was worth more than about \$20,000. Of course at the time the loan was made was the time of the boom in property here, when values were put away beyond anything that was reasonable.

Q.—Before leaving Mr. Gooderham altogether I just want to ask you one other question; Mr. Gooderham carried very considerable insurance upon his own life in the Manufacturers'? A.—Yes.

Q.—How much? A.—I remember one policy of \$50,000 on a ten-year endowment, that was the principal policy.

Q.—Where did he pay his premiums? A.—The head office.

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Q.—Any commission on them? A.—Yes.

Q.—To whom? A.—To himself.

Q.—Was that under any agreement? A.—Yes. He was I think policy-holder number 1, there was an agreement, I don't know whether it was reduced to writing or not, there was an agreement with the company that he was to get this commission.

Q.—What commission did he get? A.—Ten per cent.

Q.—Did you say it was because he was the first policy-holder, or the holder of policy number 1? A.—I just merely mention the fact, that he was the first policy-holder.

Q.—Did you understand that was the reason? A.—Yes, in this way, that I think a number of men got together and agreed to take large policies at the beginning, and they would be allowed at least the agent's commission off, because there was no commission paid to any agent on them.

Q.—Were any of the other gentlemen on the Board of the Company? A.—I think some of the early directors did take policies in the same way, and some that were outside of the company altogether.

Q.—When you said at least, what per cent? A.—At least the agent's commission. I think Mr. Gooderham was the only one who got as much as ten per cent., and when we came to settle with him when the policy matured we deducted the half of that off the proceeds that would have been otherwise paid to him.

Q.—You deducted half of what he had been allowed in commission? A.—Yes, reducing his real commission to five per cent.

Q.—So that Mr. Gooderham and these other gentlemen were upon a different footing from the ordinary insuring public in respect to their premiums? A.—Yes.

Q.—Is that an advantage which is shared by others who do not happen to be founders of a company or the first policy-holders, to directors of your company who are insured in it, officers of your company who are insured in it, getting a rebate off their premiums? A.—It is generally understood that a life insurance man can get about 5 per cent., that is, if he goes to another company, or sometimes if he insures in his own company.

Q.—What is the custom in your own company? A.—We generally allow five per cent.

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Q.—Do you always allow 5 per cent. to men of that class? A.—No, not always.

Q.—Do you enjoy that advantage for instance? A.—Yes, in all the companies I insure in I get 5 per cent.

Q.—You do in your own? A.—Yes.

Q.—Are all your directors insured in your company? A.—No.

Q.—Do all who are insured enjoy that advantage? A.—No, I don't think they do.

Q.—I want to ask you some questions about these stock investments; I do not understand you to say that you at all justify suppressing that payment to Mr. Gooderham from the Government return, do you? A.—We thought it was an item that belonged more to profit and loss than any other account.

Q.—It was a payment out of money, money that belonged to the company? A.—Yes, but money that had really been lost in previous years, in the earlier years.

Q.—But it was a payment out of the moneys of the company in a particular year for a particular purpose; I think perhaps you won't disagree with me if I say upon reflection you would not claim that to be justified? A.—No, I would not do it that way now; at the time I was looking at it more from the policyholders' standpoint than the shareholders'. The shareholders were paying the amount in and it was being paid out again to men who had paid it in before, and it did not seem to be a matter in which the policyholders were really much interested.

Q.—There is a column here number 10. "Income during the year received for calls on capital, received for increased capital"—there is a place to put that in your return? A.—Yes.

Q.—That is income during the year, and then against that you should put all the expenditure you have incurred during the year? A.—That was just the point that troubled me; it was really an expense that belonged to that year, and if it was put in that it would seem to be—

Q.—This is ear-marked easily enough, did you fill in that item, "Received for calls on capital?" A.—I don't know.

Q.—You can see it is required to be put in? A.—It is according to that form, if that is the form that was in use then.

Q.—If it was required to be put in, and if you took that identical money

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and paid it out, which ought of course to appear on the opposite side of the account? A.—It would seem so.

Q.—There is an item here, all other expenditure in detail, total expenditure—who swears to these statements in the case of your company? A.—The President and Secretary.

Q.—This document which will be marked Exhibit 66 is what your company has sent to the Secretary in answer to a request for a statement of the movement in your securities? A.—Yes.

Q.—This is a partial statement, this relating to so much of your securities as consist or consisted of stocks? A.—Yes.

Q.—Let us just get an explanation of the general tenor of the document; in the first column is the date of every transaction? A.—Yes.

Q.—Whether purchase or sale? A.—Yes.

Q.—In the second column is the name of the company whose stock is the subject of the transaction? A.—Yes.

Q.—The third column the number of shares involved in each transaction? A.—Yes.

Q.—The fourth column the par value of those shares? A.—Yes.

Q.—The fifth column the price per share paid? A.—Yes.

Q.—The sixth column the gross amount paid for the whole quantity in each case? A.—Yes.

Q.—Then the next item is the name of the person through whom the transaction took place? A.—Yes.

Q.—The next is the commission paid? A.—Yes.

Q.—The next is the price paid per share on each sale? A.—Yes.

Q.—The next is the gross amount received on each sale? A.—Yes.

Q.—And then there are columns for profit and loss, and then there is a column, ledger value at the end of the particular year that the page covers? A.—Yes.

Q.—And the last column is a column for remarks? A.—Yes.

Q.—You have arranged the transactions for each year according to the company, that is you have massed together in each year all the transactions in respect of any particular company or corporation whose stock you were dealing in? A.—Yes.

Q.—For instance in 1901 you have taken three transactions in Bank of Toronto stock and put them together? A.—Yes.

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Q.—Without reference to their chronology? A.—Yes.

Q.—And the same with Dominion Bank, the same with Ottawa Electric stock, the same with Toronto Electric stock, and same with Toronto Railway stock? A.—Yes.

Q.—That is the general scheme of the documents? A.—Yes.

Q.—That is for 1901; then on another page similarly ruled and with similar contents for 1902, another for 1903, another for 1904, and another for 1905? A.—Yes.

Q.—That, if it is correctly taken from your books ought to give us every stock transaction that you have entered into since your amalgamation in 1901? A.—Yes, except bonus stocks, which go in with the bonds.

Q.—In the first half year you appear to have had a small block of Bank of Toronto stock, a small block of Dominion Bank stock, comparatively, a considerable block of Ottawa Electric, the same with regard to Toronto Electric and the same with regard to Toronto Railway Company, how many of those did you yourself buy and how many did you take over if you took over any? A.—We took them all over.

Q.—You took them all over from the old? A.—Oh, I did not understand the question.

Q.—Apparently you took over the Ottawa Electric from the old Manufacturers' Life, the rest you yourselves purchased? A.—Yes.

Q.—What moneys were you investing in these stocks in 1901, what money had you to invest? A.—Just the money that came in from month to month from premiums or old investments maturing.

Q.—That is the old investments that were brought in by the amalgamating companies? A.—Yes.

Q.—During that year you had—I will just take this, not because I am going to follow it with so much detail hereafter, but so that we may get the run of it—during this year you purchased 28 shares of Bank of Toronto stock? A.—Yes.

Q.—And you held that at the end of the year? A.—Yes.

Q.—You purchased 500 shares of Dominion Bank stock? A.—Yes.

Q.—And you held those at the end of the year? A.—Yes.

Q.—You purchased 993 shares of Ottawa Electric, or rather took those over from the old Manufacturers'? A.—Yes.

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Q.—And those you held at the end of the year? A.—Yes, we took those over from the old company, did we?

Q.—It shows so there? A.—Yes.

Q.—I should have said 643 of them from the old Manufacturers' and 350 from the Temperance & General? A.—Yes.

Q.—Then you bought 400 of the Toronto Electric? A.—Yes.

Q.—And you held those at the end of the year? A.—Yes.

Q.—And in Toronto Railway, 500 of Toronto Railway of which you sold 300 during the year, keeping the other 200 at the end of the year? A.—Yes, that seems to be right.

Q.—That looks as though you were then seeking investments to hold? A.—Yes.

Q.—And that is further borne out by the fact that you were receiving dividends on this stock from time to time during the year? A.—Yes.

Q.—What does ledger value 31st December mean? A.—That means cost.

Q.—And that ledger value remained the same whether the stocks themselves — A.—Went up or down.

Q.—Say or increased or diminished in value—I like that better than that in stocks like these? A.—Yes.

Q.—I see Mr. Pellatt's firm was broker for you in all the transactions except one that you had that year? A.—Yes.

Q.—And they were working upon the quarter per cent. commission as you told us the other day? A.—Yes.

Q.—In 1902 your investments became a little more mobile? A.—It seems so.

Q.—And you bought and sold pretty largely? A.—Fairly.

Q.—It may not have been anything to what you did afterwards, but pretty largely as compared with 1901? A.—1901 was only half a year.

Q.—But even allowing for that there was a good deal of it; you have brought forward in 1902 all the stocks you were holding at the end of 1901? A.—Yes, that partially accounts for it looking so much there.

Q.—In this page there are five items brought forward; similarly this is arranged according to the companies whose stock you were dealing in without regard to the chronology? A.—Yes.

Q.—And so far as I can gather your earliest transactions in that year were in Twin City, which you dealt in January, February and April? A.—Yes.

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Q.—In March you were dealing in Sovereign Bank? A.—Yes, we have that yet.

Q.—You had some dealings in Dominion Bank early in the year; then in May, June, July, August and so through to the end of the year your transactions became pretty frequent, both purchasing and selling? A.—They were not so many different kinds of stocks.

Q.—No, but your transactions? A. Yes.

Q.—Your Ottawa Electric you held during the year? A.—Yes.

Q.—We will take them in their order here first; you bought Canadian Pacific to the tune of 1,700 shares, that is right, is it not? A. Yes.

Q.—Those purchases were made May, July and September, and in November and December you sold the 400 of them? A.—Yes.

Q.—Then you had a good many transactions in Commercial Cable, and these were all through Pellatt & Pellatt except one solitary purchase of C. P. R. through Osler & Hammond; that was right? A.—Yes.

Q.—What did you do with your Commercial Cable, sell it—tell me, between May when you commenced to buy, and December when your transactions ceased how many shares you bought and how many shares you sold? A.—We seem to have bought 1,000 and sold 400.

Q.—You seem to have sold your Dominion Bank stock? A.—Yes.

Q.—And then you bought Dominion Coal that year, and sold it also, is that right? A.—Yes.

Q.—Then Bank of Toronto stock you sold that out? A.—Yes.

Q.—Sovereign Bank you bought and sold at the end of the year? A.—Yes, we hold it yet.

Q.—Toronto Railway you sold? A.—Yes.

Q.—Toronto Electric you both bought and sold? A.—Yes.

Q.—Twin City you bought and sold? A.—Yes.

Q.—In respect of your transactions in stock you have told me that those transactions were entered upon at the instance and under the authority of your Committee? A.—Yes.

Q.—Which Committee was it, in 1902? A.—It would be the Finance Committee, largely.

Q.—What other Committee partially? A.—The Executive.

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Q.—The Executive first and the Finance afterwards, or indiscriminately? A.—More could originate in the Finance Committee and then would be approved by the Executive after it was done.

Q.—And then when a transaction was over, and when you first had finished a transaction was your report made about it? A.—Yes.

Q.—Except in the unfortunate case we were talking about the other day it was not reported at all? A.—That was understood.

Q.—Then this bundle which I have in my hand here consists of the reports you speak about, they seem to have been intended to be made weekly to your Committee? A.—Yes.

Q.—Let us see what the first transaction is—it commences with reporting the sale of Twin City, which was the first sale you made that year? A.—Yes, I think so.

Q.—Let us see; these reports would be made weekly? A.—If any transactions had occurred during that week.

Q.—The first report is on the 1st May, the second 8th May, the third 22nd May—there seems to be a week out there, and then the 29th May, and so on. The scheme was a weekly scheme if transactions took place in the interim? A.—Yes.

Q.—You report in that week the sale of 300 Twin City at 123½, and you say, cost of about 106½, and you report a profit of \$4,878.02? A.—Yes.

Q.—How long had you held the Twin City stock? A.—April 24th was the date of the sale.

Q.—You had purchased some of it in January, and some of it in February? A.—Yes.

Q.—Mostly through Pellatt & Pellatt—McCuaig helped you with some of it? A.—Yes, there are two purchases there through McCuaig and two through Pellatt & Pellatt.

Q.—No, you purchased it all through Pellatt & Pellatt, and you sold two through McCuaig and the balance through Pellatt & Pellatt, that was the way? A.—Yes, that is right.

Q.—That left you with 225 shares still on hand, because you purchased 525, that seems to be right? A.—Yes.

Q.—Then the next is your sale of Bank of Toronto, you sold 8 shares of Bank of Toronto, realizing a profit of \$165, you had held those since the year before? A.—Yes.

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Q.—Why did you sell that little block of Bank of Toronto shares? A.—I do not remember now.

Q.—Then you sold your Dominion, why? A.—I don't know.

Q.—You made a little profit, \$295.63, why didn't you go on holding that? A.—I cannot remember the reasons at the time.

Q.—Perhaps you did that so as to buy the Toronto Electric at 150½, which you did during the same week? A.—No, I hardly think so.

Q.—At all events you realized that week by sales \$36,825, plus \$1,974, and plus \$13,461, and you re-invested \$10,217? A.—Yes.

Q.—And you cannot of course at this date tell me why you made any of these alterations in your investments? A.—No.

Q.—Then you sold another small block of Bank of Toronto stock, 20 shares, on the 20th April, at \$246? A.—That probably accounts for the small sales; as a general thing we would decide on what figure we would sell, and the broker would sell it just according as it reached that figure, whether it was one share or 100 shares.

Q.—Is that the way you were handling your investments, watching to see how high they would go? A.—No, I have said the opposite; we would fix a price at which we would be willing to sell.

Q.—And then you would hold until they reached that price? A.—Yes, as a general principle.

Q.—The following week you purchased Toronto Electric, 532 shares, and you sold none during that week? A.—No.

Q.—The next seems to have a week intervening, you report on the 21st May you have purchased 500 C.P.R. and 255 Commercial Cable? A.—Yes.

Q.—And then you report what you hold? A.—Yes.

Q.—I see here 32 shares bonus stock in Quebec Railway and ten shares stock in the Toronto Hotel Company? A.—Yes, that is something I overlooked when I was being questioned this morning as to whether there was any record of those. There are hundreds of records in the office when I come to think of it. We report every week all the stocks of every description held by the company, and those are placed on file.

Q.—I am not going to doubt that at all, though I may point out to you here one seems to have been omitted

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by mistake? A.—That would be a clerical error.

Q.—Was it possible you should have a transaction during any particular week and omit to report at the end of that week, and let it go for a fortnight? A.—Some weeks we did not have any Board meeting.

Q.—There seems to have been an Executive meeting at which no report seems to have been presented; it answers to this gap here? A.—The intention was if there were any transactions to report them, but still it would be possible to overlook it.

Q.—In the week ending 5th June you reported a lot of Commercial Cable purchase, 490 shares? A.—Yes.

Q.—You were purchasing apparently on a rising market? A.—We purchased in all a thousand shares, which would have shown at the present time a profit of \$93,000, but as Mr. Fitzgerald expressed some doubt as to whether it came within our charter we had to dispose of it; we disposed of it at a profit, I do not just remember how much, but it would have shown a very handsome profit if we had been able to hold it.

Q.—I will go on; on the 17th July you were holding 1,000 Toronto Electric, 993 Ottawa Electric, 1,000 C.P.R., 500 Commercial Cable, 150 Sovereign Bank, and then these two bonus stocks? A.—Yes.

Q.—What is column four, the cost price? A.—Yes.

Q.—They stood you \$471,000? A.—Yes.

Q.—You bought 500 C.P.R. the next week and sold none; then the following week you bought 50 Commercial Cable and sold none; the next week 200 Commercial Cable, sold none; the next week 150 Commercial Cable and sold none, the next week 100 Commercial Cable and sold none. On the 25th September you report a small sale of Toronto Electric Light, 25 shares, for delivery on the 1st October? A.—How was that?

Q.—Do you remember that sale? A.—The books, perhaps, were closed, that is the transfer books on the 15th of that month.

Q.—You held those thousand shares, why were you selling 25? A.—I do not really know.

Q.—Why is it not here as it was in the early stages, why don't you report the profits? A.—I don't know, I am sure.

Q.—Perhaps because you are selling 25 out of 1,000, and you do not know which part of the thousand you were

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selling? A.—Yes, that would be the natural conclusion.

Q.—But there would be an average price, indeed you fixed an average usually; then you purchased 800 shares of C.P.R. the next week, and sold 210 of Toronto Electric; then you purchased Dominion Coal in the fortnight ending October 20th, 300 shares, sold none? A.—Yes.

Q.—Dominion Coal again in November, 400 shares, then you commenced to sell Cable, the first week in December sold \$39,000 worth of Cable, at the end of the year as the result of your operations of that year you had \$644,765.41 invested in these securities: 765 Electric Light, 993 Ottawa Electric, 1,700 Canadian Pacific, 600 Commercial Cable, 700 Dominion Coal, and 150 Sovereign Bank? A.—Yes.

Q.—Let me go back again before dealing with 1903; you had purchased Bank of Toronto stock in 1901 which had cost you \$6,565, in 1902 you sold the whole of it, realizing \$6,889; what rate of dividend was the Bank of Toronto paying that year? A.—I don't remember.

Q.—Cannot you tell, 1902? A.—I think they were paying ten per cent.

Q.—Is that a good investment—good in the sense of being safe, and good in the sense of being fairly remunerative? A.—Yes, fairly so.

Q.—In both senses a good investment? A.—Yes, I would certainly regard it as very safe investment, it is a very conservative investment.

Q.—Cannot you tell me why you sold it; you only made \$324 on the turnover, and that was nothing if you had a good investment? A.—It may have been we thought some other investment was better.

Q.—You see between 1901 and 1902 there was a considerable change in the character of your investments, you were investing in the conservative investments such as these, you were investing in stocks that were more or less of a speculative nature, that is true, is it not? A.—Almost any investment of late years has been of the speculative nature if you use that in the sense of great fluctuations, even British Consols have been in the course of I think about four years—

Q.—Let us not talk about British Consols and Dominion Coal in the same sense? A.—Well, 20 points on a stock would be considered very great fluctuation. British Consols went down from 113 to 85.

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Q.—You know what I mean when I speak of speculative stocks, stocks which are used for the purpose of speculation on a stock market, that was the class of stock you were getting into in 1902 as against the bank stocks you were holding, and other conservative stocks you were holding in 1901? A.—Apart from Dominion Coal, I do not think it would be fair to apply that to any of the others.

Q.—Is not Commercial Cable a very active stock? A.—It has been active.

Q.—Was it not active in 1902? A.—You mean in the way of fluctuations?

Q.—Yes? A.—No, I do not think so.

Q.—And in the way of transactions, was it not being made use of in the stock market as a medium of speculation very largely? A.—I don't think so.

Q.—What do you say about these other stocks? A.—I consider them all conservative.

Q.—Canadian Pacific? A.—Yes.

Q.—Was there much movement in Canadian Pacific, was that the commencement of the great movement in Canadian Pacific? A.—What price was that? 127 $\frac{3}{4}$; if we had held our Canadian Pacific at the present time it would show a profit of about \$60,000.

Q.—I did not ask you that, I asked you whether that was not the time when Canadian Pacific was moving, and when people were buying and selling it daily? A.—They are always buying and selling it daily.

Q.—You know what I mean? A.—No.

Q.—You have not been enough in brokers' offices to know about that, about the movement in Canadian Pacific? A.—It has been a very profitable investment, I know that about it, and it has been considered a very conservative investment, it is one of the greatest properties we have in the country I think.

Q.—When did that stock commence to go up? A.—Years ago. I remember when it was selling at about \$50; it has been steadily increasing in value almost ever since. Of course there have been reactions like there will be in bank stock or any others stocks you can lay your finger on.

Q.—What was taking place in regard to that stock in 1902? A.—I don't remember.

Q.—What do you say about Dominion Coal? A.—Dominion Coal at that time was considered a great property, it was guaranteed—

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Q.—I was asking about it being speculative stock? A.—We did not consider it so then.

Q.—And Twin City? A.—No.

Q.—What is Twin City? A.—It is a Street Railway in St. Paul and Minneapolis, it fluctuated very little comparatively in the last five or six years.

MR. TILLEY: Q.—What stocks would you say were speculative? A.—It is really hard to draw the line.

Q.—Give us some examples of stocks that are dealt in in Toronto that are speculative? A.—I do not think it is a fair question, I cannot answer that without reflecting on certain institutions.

Q.—Your ability to answer is one thing and fairness is another, which do you put it on, it is not fair or that you cannot answer it? A.—I will say I cannot answer it.

Q.—You cannot tell any stocks that are bought and sold on the Toronto Stock Exchange that you would regard as speculative? A.—I have answered that.

Q.—You cannot answer it any better than that; at any rate these stocks that you are referring to here were not of that class? A.—No.

Q.—The Dominion Bank stock you bought in 1901, can you say what rate of interest that stock yielded the company? A.—No, the price would show that it was a ten per cent. stock I think at that time.

Q.—Then could you just tell me about what rate that yielded the Manufacturers' Life? A.—It would be about four per cent.

Q.—Dominion Bank stock was bought, that was taken over from the old company, was it? A.—I think so.

Q.—Bought at 238 and 239? A.—Yes, it would yield a little over four per cent.

Q.—And you sold it out on a basis of \$240 per share, was it not? A.—240 $\frac{3}{4}$.

Q.—Did you regard the Dominion Bank stock, on the basis of yielding you a little better than four per cent. as a good, safe and proper investment? A.—Yes, I would in a bank stock, because if you take the history of banks in Canada you will find that if you add the dividend and the value of their rights, because they are from year to year issuing new stock, plus the increment in the market value of the stock, and add them all together, good banks, such as these banks we have been speaking of, will probably in every

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case give you an investment that is as good as ten per cent. or better.

Q.—Why did you dispose of it in 1902? A.—I at that time had not studied banks as carefully as I have lately, and I did not take into consideration the value of the rights of the stock they were issuing from year to year, but looked at it more from just what it was yielding in the way of dividends.

Q.—Your answer is you did not think as well of it then as you do now? A.—No, I did not.

Q.—If you had it to do over again even without the experience you have had since you think you would act differently about selling Dominion Bank stock that was yielding a little better than 4 per cent? A.—As an indication of my opinion of bank stocks now I might say we have only 9 different stocks on our books at the present time, that is apart from these bonus stocks, and six of those are bank stocks.

Q.—That is to say at the present time the company holds stocks of nine different institutions or companies? A.—Yes.

Q.—And that is leaving out the bonus stocks you spoke about this morning? A.—Yes.

Q.—And of those nine different institutions six of them are banks? A.—Yes.

Q.—How long has that been your method of investment? A.—During the last year I came to the conclusion that bank stocks in Canada, particularly at this period of the company's history, for a life company, is a pretty safe and profitable investment if carefully invested.

Q.—And the result of experience too with other securities you held? A.—No, as a matter of fact apart from the stocks deal with, the losses already spoken of which the directors made good, we have not lost any stocks, we have made considerable profit.

Q.—Has not the very fact that the directors had to make good losses affected you in your view of different stocks and your method of comparison? A.—Yes, made us more careful and more conservative.

Q.—Do you account for your change of method to some extent to the experience you had in that regard? A.—Yes, I think it would be quite correct to say that.

Q.—You say that as the result of the more complete light you got in 1903,

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that you have changed your view somewhat of different securities? A.—Yes.

Q.—But you have not yet come to the conclusion that these Commercial Cable and Twin City stocks were at all speculative? A.—No, I would consider those the very reverse.

Q.—What would you say about Ottawa Electric stock, what did that yield to the company? A.—It was a six per cent stock when we bought it, and on account of the socialistic spirit of the citizens of Ottawa, who have been trying to sacrifice the property, they stopped for a time paying dividends, they are just resuming now.

Q.—So that for a time you were without dividends on that? A.—Yes.

Q.—You still hold it, do you? A.—Yes.

Q.—That is the stock you have never yet parted with? A.—Yes.

Q.—The Toronto Electric Light stock which you got in 1902, you parted with that? A.—Only some of it.

Q.—Have you got the balance of it yet? A.—Yes.

Q.—What was that bought to yield the company? A.—I think it was a 7 per cent stock when we bought it; what was the price?

Q.—About 144 and 143? A.—That would be about 5 per cent.

Q.—And you have had a good many transactions in Toronto Electric Light? A.—Yes, any we sold we always sold at a profit; what we hold now shows a nice profit.

Q.—How many shares of Toronto Electric Light stock have you dealt in since the new company was formed? A.—I don't think we had more than 1,200 or 1,300 altogether; these documents will show.

Q.—Some of it bought in 1901, and some of it sold in 1902? A.—Yes.

Q.—And some more bought; take your Toronto Electric Light stock for 1902, that shows both purchases and sales, does it not? A.—Yes, we kept on purchasing until we had a certain amount, and then we sold some of it, and I don't think we have had any transactions in it since.

Q.—From 1901 you have brought forward 400 shares? A.—Yes.

Q.—And then you bought 68 in April? A.—Yes.

Q.—Bought 32 in May? A.—Yes.

Q.—And 500 in May? A.—Yes.

Q.—Then in October you sold 35 and 200, is that right, or was that another purchase—that was a sale? A.—Yes.

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Q.—Why would you sell that? A.—We perhaps concluded it was too much of one security to hold.

Q.—Then it was too much to buy? A.—Well, I think it was about that time we began getting more careful.

Q.—That would be in October, 1902? A.—We sold at 154 and 151.

Q.—And you bought in April and May at what prices? A.—Some at 150 and some at 155.

Q.—You bought a large block stock of \$50,000 of the stock at 155? A.—Yes.

Q.—And you sold that block of it at 151, and another at 154 and a fraction? A.—Yes.

Q.—Why would you make that sale, that was not showing a profit? A.—I do not remember any special reason at the time.

Q.—Do you say that it was because you were getting more careful? A.—I could not be sure at this date.

Q.—Was not that about the time that you appointed the Finance Committee? A.—I do not remember, the documents produced will show.

Q.—Was that Finance Committee appointed in November, 1902? A.—I cannot remember.

Q.—The first meeting of the Finance Committee was held in December, 1902, that Committee was appointed because your transactions in stocks were anticipated to be a little more active in the future than they had been in the past, was it not, and it lasted you remember until— A.—No, I do not know that there was any intention to be more active, but the idea was a small Committee could give more careful consideration to any transactions we had than the Board who had to deal with a great many things.

Q.—But your idea was at that time that a special Committee should be appointed to deal in stocks, was it not? A.—To consider carefully any stocks that we had to deal in.

Q.—To direct the purchase and direct the sale of stocks? A.—Yes.

Q.—And that Committee was appointed in November, 1902? A.—Whatever the records show.

Q.—About the middle of November it was appointed, and these transactions with Toronto Electric Light, when you were selling them at less than what you had paid were in October, 1902? A.—Yes, before the Committee was appointed.

Q.—Can you say why they were sold, if they were bought at a price that

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yielded a good investment why were they sold at less than what you paid for them? A.—I don't know, it may be that there was not any loss, it may be that we received a dividend in the meantime, we only held them a very short time.

Q.—Let us know whether that was so? A.—Then again the stock did not average us that.

Q.—No, but you bought a large block of \$50,000 of that stock, and I think this very last purchase you made was 500 shares of Toronto Electric, and you bought it at 155 1-8, and you sold a block of 20,000 shares in October at 151 3-4? A.—I remember now; some of our directors thought it was more than we ought to hold of one stock.

Q.—Why was it bought? A.—Because when it was bought perhaps we did not consider how much we already held of it so carefully.

Q.—Was not it really bought for a turn in the market? A.—I don't think so.

Q.—Was it not because it was a speculative stock, and it was showing a tendency to go down rather than increase in value? A.—No, we always had confidence in Toronto Electric Light.

Q.—If you bought it to yield a fair return why did you sustain a loss on it of three or four points in a few months? A.—I claim we did not sustain any loss; the average cost is not that much.

Q.—You think you should judge it by the average cost? A.—Yes.

Q.—You take the price you had paid for it in the preceding year 1901 to average down the price you paid in 1902? A.—Yes.

Q.—And although you bought \$50,000 of it in the spring of 1902, and you sold \$20,000 of it in October, 1902, you say that because the average cost was less than what you paid for the \$50,000 you still might have sustained a profit? A.—Yes. If you call that a speculative stock I don't know where you will get stocks that are otherwise.

Q.—I am asking you to call them? A.—I have repeatedly said I do not call any of them speculative stocks.

Q.—I am asking you the object you would have in buying and selling it? A.—I have tried to explain that, that we bought a little more than we thought we ought to hold when we came to carefully consider the matter and see what it amounted to as a

total sum; I remember that I was ordered to sell some of it.

Q.—Where is that? A.—It would be in the minutes.

Q.—“Permission was granted for the Managing Director to sell 1,000 shares of Toronto Electric Light stock now held by the company at 149 3-4 at the market price”—so that the stock at the time you were authorized to get rid of 1,000 shares of it at 149 3-4, that was a good deal less than you paid for it in April and May? A.—I was authorized to sell it at the market price.

Q.—It is said that that is the average cost of the stock to you? A.—Yes, that is the way we always look on our stocks, whatever the average was, the average cost, we placed that as the cost.

Q.—That would be averaging up the cost of the 1901 stocks and the— A. Yes, no matter when it was purchased.

Q.—The Toronto Railway stock, that is in the same category I suppose, in 1901 you bought it I suppose with the intention of getting an investment? A.—Yes.

Q.—Not, you say, to get some profit by a rise in the market? A.—No.

Q.—And you sell it in 1902 at a profit of \$290, what did that yield you? A.—What did we pay for it?

Q.—You paid 115 and 116? A.—It would be about 4 1-2 per cent.

Q.—In 1901 you bought 500 shares of Toronto Railway? A.—Yes.

Q.—At 115 3-4 to 116 1-4, about 116 average? A.—Yes.

Q.—Then you sold 300 shares of that on October 30th, the next month? A.—Yes.

Q.—Retaining that security just a month? A.—Yes.

Q.—Why would you do that if you were buying it for investments? A.—I do not remember now.

Q.—Can you suggest any reason why you should change your mind so quickly as that on a security? A.—No, I cannot.

Q.—You sold it at 116 3-4 to 117, you bought it 115 3-4 to 116 1-4?

MR. McLAUGHLIN: The Toronto Railway account would show.

MR. TILLEY: Q.—You cannot say why it was sold off if it was bought to produce a fair return as an investment for your money? A.—No.

MR. McLAUGHLIN: This is the Toronto Railway account.

MR. TILLEY: That does not carry it much further.

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Q.—In 1902 you sold the balance of the Toronto Railway stock; surely that is not buying stocks for investment; you buy in September and sell it in October? A.—Sometimes one changes his mind about an investment.

Q.—Would not any change of mind in that short time be due to change in the market, and not to a change in the intrinsic value of the security? A.—Not necessarily.

Q.—Can you say in that month you obtained any information that changed your confidence in the character of the security? A.—It is quite possible I did.

Q.—Everything is possible? A.—I cannot remember every detail about every investment. A company with several millions of money, I cannot remember every detail about every investment it makes in the course of five or six years.

Q.—I am asking you for this one detail in the year 1901, if you cannot answer it there is no use giving a general statement? A.—I have said I cannot answer it.

Q.—You cannot give any other reason at all, in fact you cannot suggest the reason, as I understand? A.—No, I do not remember at all.

Q.—Anything might be possible, and you cannot say what likely the reason is? A.—That is right.

Q.—In 1903 the first security that is mentioned on the list of stocks for 1903 is the Canadian Pacific Railway; your transactions in C. P. R. before in the year 1900 were referred to and you carried over from 1902 1,300 shares of C. P. R.? A.—Yes.

Q.—That was a large holding in the C. P. R.? A.—Yes, a considerable holding.

Q.—Then on January 2nd, 1903, you bought 400 shares of C. P. R., which would make your total holding of C. P. R. 1700? A.—Yes.

Q.—What was the next transaction of purchase or sale? A.—It was a sale.

Q.—Your purchase of the 400 shares was on January 2nd at 138 per share? A.—Yes.

Q.—And on January 15th, that is within two weeks, you sold 700 of the shares at 137 $\frac{3}{4}$, that is at a slight loss, is it not? A.—Apparently, unless we received a dividend in the meantime.

Q.—Can you say whether there was a dividend in the meantime; there would not be any dividend between January 2nd and January 15th, would there in all likelihood? A.—Not likely.

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Q.—So that you bought 400 on January 2nd, and carried it for two weeks, and then you sold it at near one-quarter less than what you paid for it, and you sold 700 at that lower price? A.—Yes.

Q.—Can you give any reason for that transaction? A.—No, I noticed it brought our holdings down to an even thousand shares.

Q.—That 700 from the 1,700 shares makes the thousand, is there anything else? A.—I don't think of anything else.

Q.—February 14th you sold 200 more shares at 135 $\frac{1}{2}$, so that the price seemed to be going down at that time? A.—Yes.

Q.—On March 3rd apparently it was down to where you commenced to buy again? A.—Yes, I see we purchased again.

Q.—So that on March 3rd you commenced to buy; March 3rd you bought 200 shares of C. P. R. at 134 $\frac{1}{4}$? A.—Yes.

Q.—And you bought on March 6th at 130 $\frac{1}{8}$, 100 shares more? A.—Yes.

Q.—March 7th 200 shares more at 129 $\frac{1}{4}$? A.—Yes.

Q.—And March 9th 100 shares more at 128 $\frac{1}{4}$? A.—Yes.

Q.—March 10th 100 shares more at 127 $\frac{1}{4}$? A.—Yes.

Q.—March 8th 100 shares more at 129 $\frac{1}{4}$? A.—Yes.

Q.—March 8th another lot of 100 shares at 128 $\frac{1}{2}$, that is right? A.—Yes.

Q.—The last two of those purchases being made through Osler & Hammond, and all the previous ones being through Pellatt & Pellatt? A.—Yes.

Q.—So that you bought at that time five lots? A.—Yes.

Q.—Of C. P. R. through Pellatt & Pellatt, amounting to 700? A.—Yes.

Q.—So that you there by that transaction replaced the 700 shares you had bought before? A.—Yes.

Q.—You were replacing them at an average of about 128, 129, what you had sold for about 130? A.—Yes.

Q.—So that was buying in as the market was falling? A.—Apparently.

Q.—Here is an item on March 8th, 1903, of interest to Osler & Hammond, what does that mean? A.—I don't know except they held some of this stock for a few days for us.

Q.—Why did they hold it for a few days for you? A.—We might not have had the money at the time.

Q.—Would you be investing money if you did not have it to invest? A.—Quite often.

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Q.—That is you would anticipate money coming in? A.—Yes, we have an average of about \$100,000 a month coming in.

Q.—Were you anticipating at that time, can you say? A.—Evidently.

Q.—Are you so sure about that you would say offhand that way. A.—No.

Q.—I see there was a meeting of the Executive Committee on April 6th, 1903, this seemed to be the state of your account at that time, bank balances \$19,193 of overdraft, call loans nearly \$213,000, obligations \$273,680; that means that you were obligated to pay out \$273,680 with respect to loans you had promised on real estate, or with respect to some other investment you had undertaken? A.—Yes, and out-standing death claims.

Q.—Anything that was a claim on you at that time? A.—Yes.

Q.—Would that include this C. P. R.? A.—Yes.

Q.—And the Standard Bank loan \$100,000, and T. E. P. Brown \$5,000, that does not look as if you had much money to invest at that time? A.—Although these outstanding obligations are all in there, some times some of them represent bonds that we purchase for delivery at a certain date; they might not be ready for delivery. The outstanding death claims we can only pay them as the proofs of loss, the complete proofs come in.

Q.—See how it compares with the following weeks; April 14th the bank balances were \$6,671 apparently on the credit side? A.—Yes.

Q.—Call loans \$212,000, obligations \$277,960; Standard Bank loan \$100,000, and T. E. P. Sutton, is that the name? A.—Sutton.

Q.—\$4,000, which shows that the one I read before of the 6th was a mistake? A.—Yes.

Q.—So that the obligations still amounted to almost \$300,000. Then on April 20th, 1903, the bank balances were \$19,000 odd, call loans \$222,000, and obligations \$380,210; so that with that bank balance of \$19,000 and \$222,000 of call loans you had at that time still obligations amounting to \$380,000? A.—Yes.

Q.—Then you had no money apparently that was reducing that item of obligations? Q.—We were probably making investments all this time.

Q.—Why would you be making investments still carrying forward a large item of obligations like \$380,000? A.—A good many of those I explained were not immediate obli-

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gations, some of them would be months ahead.

Q.—April 27th, obligation \$294,000, May 4th, obligation \$184,000. Let us see whether on May 4th you had been making many sales of these stocks or not. At any rate you say that the interest that is shown there to have been paid to Osler & Hammond would be with respect to moneys that were owing Osler & Hammond on investments they had made for you? A.—Yes.

Q.—Have you Osler & Hammond's account here? A.—I have not. It would be in here, it would be some of these stocks we had purchased from them, there is the item.

Q.—You bought from Osler & Hammond on March 6th and March 8th, 1903, two lots of 100 shares each of C.P.R. at 129½ and 128½; that might possibly necessitate the payment of the \$32.10 interest? A.—Yes, that would be the item, they evidently held this stock for a few days for us.

Q.—We will be able to see the items you were then owing Osler & Hammond in the same way? A.—Yes.

MR. McLAUGHLIN: 200 shares for a week would amount to that much.

MR. TILLEY: But that is 100 shares for two days.

Q.—Was it not the fact that the Manufacturers' Life at that time had at least two current accounts, one with Osler & Hammond and the other with Pellatt & Pellatt? A.—Yes.

Q.—And you would give orders for the purchase of securities and give orders to sell the securities without paying for them at the time the transaction went through? A.—Yes.

Q.—Leaving it to the brokers to finance it? A.—Sometimes.

Q.—That would be, would it not, buying and selling on margin? A.—No.

Q.—Why not? A.—We always paid a very substantial amount.

Q.—That would just mean a larger margin? A.—And the account was never allowed to run more than a few days at a time as a general thing.

Q.—Were those purchases of 700 shares through Pellatt & Pellatt authorized by any Committee before they were made? A.—Yes.

Q.—Let me see the memorandum of that?

MR. McLAUGHLIN: You cannot question him as to the contents of written documents without producing them.

Q.—There is an entry of "The purchase was approved of \$25,000 Cape

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Breton Electric Company first mortgage 5 per cent. gold bonds" and "500 shares of C.P.R. at 129, 129, 128 and 127." That is March the 9th? A.—This includes the brokerage.

Q.—Does this include brokerage? A.—Yes.

Q.—And this does not? A.—No.

Q.—Then there would be 200 at 129? A.—Let us see what the dates are.

Q.—This is a meeting of the Executive Committee on March the 9th, and first the purchase was approved of 500 shares of C.P.R.? A.—There is 5 if you take it down to there.

Q.—But it says 129, 129, 128 and 127? A.—There is 129, 129, 128 and 127.

Q.—I see. Then these others were bought at the date of that meeting. Why are they not shown here? A.—They were probably approved at the previous meeting.

Q.—The next previous meeting was March 2nd and that was before any of them were bought? A.—The purchases began on January 2nd.

Q.—Well, that was in March. We can see the authorization for this afterwards. Then in the same stock, C.P.R., on March 20th you commenced selling again, did you not? A.—Yes.

Q.—First sale, 200 shares at 131. Then on April 20th you sold 100 shares at 130½. April 21st, 100 shares at 131¾. April 21st, 100 shares at 131¾. April 21st, 100 shares at 132¾. April 21st 100 shares at 132¾. So that you parted with during that time 700 shares of C.P.R. at about 131 to 132, or 132 average? A.—Yes.

Q.—132 average. You first sold 700 and 200 at about 136 and then you bought 900 at about 129 and then you sold 700 at about 131 and 132? A.—Yes.

Q.—All within the months of January, February, March and April? A.—Yes.

Q.—Can you say, then when these shares were bought they were bought for investment, is that still your opinion? A.—No, I think it is quite likely that some of them were bought with the idea of only holding them a short time.

Q.—So that it would be fair to say that at that time at any rate, the beginning of 1903, that you were buying for a rise in the market or selling because you thought they would go down? A.—Yes.

Q.—And that was when the Finance Committee had been appointed

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and was in running order for a month or two? A.—Yes, a longer time than that.

Q.—November. Their first meeting was December 2nd, so that they would commence in the month of January.

MR. McLAUGHLIN: Practically 1903 covers the Finance Committee period.

MR. TILLEY: Practically 1903? A.—Yes.

Q.—Then on April 23rd, 1903, there is an item of "Re exchange to Osler & Hammond" which is not large enough to bother about, but there is an item on December 30th, 1903, of interest to Pellatt & Pellatt, \$972.84. What does that mean Mr. Junkin? A.—It must have been on a current account such as was spoken of.

Q.—A current account, just as we mentioned, where they were advancing some of the money at any rate to carry some of these securities you were buying, is that right? A.—I would not be sure of that. I think it is correct.

Q.—I suppose their account is not here either? A.—No.

MR. McLAUGHLIN: You had their account the other day.

MR. TILLEY: I had their account but not your account with them. We will be able to see that later. Now that completes all the transactions you had in Canadian Pacific Railway during the year 1903, does it not? A.—Yes.

Q.—Then the next item you have in the statement is an item of Canadian Securities, Limited, number of shares 200. That is a lot of stock that you took by way of subscription, according to this statement, in the Canadian Securities, Limited? A.—Yes.

Q.—We will not stop to take that up now because that is something that would lead us off to another inquiry, but we will deal with that afterwards. Then the Commercial Cable stock, you brought forward 600 shares from 1902 and then in January of 1903 you sold two lots of 25 shares each through Pellatt and Pellatt, the first at 174 3-4 and the second at 175. Is that right? A.—Yes.

Q.—No other transaction until March 6th when you sold 50 shares at about 166 3-4. Apparently Commercial Cable had started to go down? A.—Yes.

Q.—It was not the only stock that started to go down? A.—What time was that?

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Q.—March, 1903? A.—No, I think that was about the period that most stocks were going down.

Q.—You seem to have got all of your C. P. R. closed out in the month of April? A.—Yes.

Q.—Then March 20th you bought 69 shares of Commercial Cable at 100 didn't you? A.—Yes.

Q.—That is a drop? A.—No, that is the par price.

Q.—Price per share paid? A.—Yes, 100 evidently.

Q.—\$6,900. Now did that stock drop from 166 3-4 on March 6th to 100 on March 20th? A.—No, that can't be right. There must be a typographical error there in some way.

Q.—The total seems to be right, \$6,900. That means it is said that you got in respect of your old shares an allotment of 69 shares of new stock? A.—Oh yes, I remember that now.

Q.—For which you would pay par? A.—Yes.

Q.—Then on April 25th you sold 100 shares at 157 3-4. April 25th 50 shares at 157 3-4. April 27th 150 shares at 157 3-4. April 28th 200 shares at 159 3-4 and on April 30th 69 shares at 164 3-4. And that concluded your transactions in Commercial Cable for that year? A.—Yes.

Q.—The whole transactions in Commercial Cable showed a profit of \$1,570.87? A.—Yes.

Q.—And that would be credited to interest account? A.—It seems so from that item.

Q.—Then on March 16th apparently you bought some Crow's Nest Coal, 202 shares and you sold it on December 28th, 1903. Did you buy it through Pellatt & Pellatt or from Pellatt & Pellatt? A.—Through Pellatt & Pellatt.

Q.—As your brokers? A.—Yes.

Q.—And you sold it to or through MacKenzie and Mann? A.—To. That is the matter that was already gone into.

Q.—That was the Crows Nest stock that you got rid of on December 28th, 1903? A.—Yes.

Q.—That passed out of the books at the end of that year. Then Ottawa Electric on January 1st, 1903. Apparently you had or I thought you had some that you had carried over? A.—Yes, well, that is it isn't it?

Q.—It does not say carried forward? A.—That is what it is at any rate.

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Q.—Apparently that is just what you carried over and you had no transactions in it that year? A.—We have not sold any at any time.

Q.—Then Sovereign Bank is what you carried forward? A.—Yes.

Q.—The Toronto Electric Light, you carried forward 765 shares at the beginning of that year? A.—Yes.

Q.—On January 22nd you bought 235 more? A.—Yes.

Q.—Making in all 1,000 shares? A.—Yes.

Q.—You bought that at 155¼? A.—Yes.

Q.—Then on May 1st, 1903, did you buy or sell 500 more? A.—That was a new issue.

Q.—An allotment of new stock which you took up at par? A.—Yes.

Q.—That is mentioned here, so that at the end of that year you would be carrying forward the whole of these shares? A.—Yes.

Q.—1,500 shares of Toronto Electric Light? A.—Yes.

Q.—Then the next item in April 30th, 1903, King Edward Office Building Company. Would you tell us what that was, it was a subscription? A.—Yes. Well, to begin at the beginning. We have never been a great believer in office buildings, that is in the possibility of a Life Insurance Company being able to make them pay a fair rate of interest, and yet we have for the last few years back been wanting better office accommodation for ourselves. Instead of putting up an office building of our own and renting out parts that we do not require for our own use, we conceived the idea of joining with several other financial institutions, or institutions of various kinds, and putting up a building jointly, making it a Joint Stock Company, each one settling in advance about how much office accommodation they would require and having it divided up among the different companies in that way, our idea being to take the two top floors. A company was formed in that way for the purpose of purchasing this property opposite the King Edward Hotel and next the Rice Lewis corner, 80 feet frontage. After the company was formed and the property purchased and after we had a few meetings of the Board of Directors, there were so many different ideas about what kind of a building should be built, and other matters, that we concluded it would be better for us to fall back

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on the old plan adopted by most companies, of owning the property outright and building it ourselves; so we bought out the interest of the other parties at cost and then endeavoured to buy the Rice-Lewis corner to complete the property, so that we could have good light, to have a corner. We found the price of the Rice Lewis corner much higher than we thought the property was worth and we concluded that it was not to be purchased, and after giving the matter careful consideration we concluded that it would be unwise to build without a corner, we wanted to get a property on a corner where we would have good light and put the property up for sale and sold it at a profit of about—well, it stood us counting interest at about \$106,000 and we sold it for \$120,000. That is the history of the whole transaction.

Q.—So you made a profit on that matter? A.—Yes.

Q.—Who owned the property before this company took it over? A.—Some gentleman that lived in Hamilton owned part of it and I don't remember who owned the other part.

MR. McLAUGHLIN: The Clark Estate owned part of it. It was in no way connected with our company. A.—No, they had nothing to do with our company; never heard of them until we began to get interested in the property.

MR. TILLEY: We will leave that for the present at any rate. It is not the nature of the transactions that we are examining into just for the moment.

MR. McLAUGHLIN: The Bull Estate owned the other part.

MR. TILLEY: The Dominion Coal is the next stock that is shown here as being one of the usual investment kind, I mean to say different from the King Edward Office Building property and different from the Canadian Securities Limited? A.—Yes.

Q.—In Dominion Coal you carried over from the last year no stock at all did you? A.—No.

Q.—But on January 2nd you bought 700 shares of Dominion coal at no price given here. That is the transfer from the previous year? A.—Yes.

Q.—We had that before so I do not want to take up any time with it at all. Then on January 22nd, 1903, you bought 300 shares of Dominion Coal at 131½? A.—Yes.

Q.—That was all you bought during January or February, wasn't it? A.—Yes.

Q.—But in March you commenced to buy Dominion Coal again on a lower level of prices, did you not? A.—Yes.

Q.—On March 11th you bought 50 shares. March 12th, 100 shares. March 12th, 100 shares. March 12th or 13th, 100 shares more. March 14th you bought 5 lots of it, 3 of them being for 100 shares, one for fifty and the other for 25, and on the 15th you bought 100 shares. Those were all purchases, weren't they? A.—Yes.

Q.—So you bought 825 shares of Dominion Coal before March 11th and March 15th? A.—Yes.

Q.—At prices ranging from 119¼ to 123¾? A.—Yes.

Q.—All but 3 of those transactions were with Pellatt & Pellatt? A.—Yes.

Q.—Then on December 28th you still had all those shares, had you not? A.—Yes.

Q.—And those constituted the 1,825 shares that were transferred to Mackenzie & Mann? A.—Yes, and taken over afterwards by the Prudential Company.

Q.—Those 1,825 shares. Those shares on December 28th would have shown you a very large loss, would they not? A.—Yes, considerable.

Q.—You were buying it at 119 to 122 or 123 in March and within a month or two afterwards it dropped to a very low level, did it not? A.—Yes.

Q.—That was all discussed so much in connection with the other company that we will pass it over for the present. The only other stock that you dealt in in 1903 was Twin City, and you carried over nothing from the previous year, did you? A.—No.

Q.—But you commenced in March and on the 12th you bought 150 shares; on the 14th, 50 and 75 and 125; and apparently on the 13th 100, and on the 16th 100. And then you paid an item of interest to Ames & Co. on April 28th, 1903, amounting to \$135.30. The last of all those purchases of Twin City stock being through Ames & Co. and the other four being through Pellatt & Pellatt? A.—Yes.

Q.—Then in June you made further purchases of Twin City? Was Twin City stock a stock that was within the Insurance Act? A.—Well, we thought it was when we purchased it, but on examining the Act more closely we found that it was not.

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Q.—On what construction did you think it was within the Act? A.—There are two clauses in the Act, one enumerating the securities that a company may invest in, a company that is only doing business in Canada. Then there is another that enumerates the securities that a company may invest in that is doing business in the United States, and the securities named are very much the same with the exception of street railway stock. Although street railway bonds are included in the second, street railway stock is not. We had not noticed that; we thought it was practically in the same position as Toronto Railway stock, for instance. Because we were doing business in the United States.

Q.—You thought there was a difference in the stock of American and Canadian street railways? A.—We thought it was the same.

Q.—You thought it was the same before, but after examining into the Act more closely you came to the conclusion that there was a difference between the two? A.—Yes.

Q.—Then do you say that at the time you were buying this Twin City stock you believed it was an authorized investment? A.—Yes.

Q.—Had you considered it at that time or was it present to your mind at all? A.—It was present to my mind. I felt quite satisfied that it was an authorized investment.

Q.—You were buying Twin City in March at 115 $\frac{3}{4}$? A.—Yes.

Q.—115 and over and at the end of March you had 600 shares of Twin City? A.—Yes.

Q.—Then on June 3rd you commenced buying Twin City at 98, 50 shares more at 97 $\frac{3}{4}$, and 50 shares more at 97 $\frac{5}{8}$? A.—Yes.

Q.—And then on August 6th and August 8th you bought two other lots of 100 shares each at about 89? A.—Yes.

Q.—So that shows the price that Twin City had dropped to? A.—Yes.

Q.—Your original investment in that had been at about 115 or 116 and now it was down to about 88 or 89? A.—Yes.

Q.—And later on down to 87, 86 and 85 at the time these other purchases were made? A.—Yes.

Q.—Then I see here an item of interest on June 3rd, paid to McCuaig Brothers; that would be with respect to some transactions of the same kind that you had with them? A.—That would be for a day or two, just.

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Q.—A small item for a day or two's interest? A.—Yes.

Q.—Then in the middle of August you commenced selling Twin City, or at least you sold 3 lots of 200 shares? A.—Yes.

Q.—At about 93? A.—Yes.

Q.—And then you bought in September again 300 shares at about 86 or 87? A.—Yes.

Q.—And then you sold in the latter part of September and October 300 shares didn't you? A.—Yes.

Q.—At about 86 to 87 and a fraction.—A.—Yes.

Q.—So that that completed your transactions in Twin City at that time? A.—Yes.

Q.—Then I suppose it is fair to say that with respect to those transactions they were made with the intention possibly of holding a short time, because you seem to be buying and selling, is that right? A.—Well, when it went down the additional purchases were made to average the price up. We thought it was below its true value then and we wanted to reduce the average price.

Q.—I suppose when it went down that low you thought it was a particularly good buy? A.—Yes, we certainly did.

Q.—And supposed you would be able to sell it again shortly at an advance in price? A.—Yes, so as to bring down the average cost to us.

Q.—You did not take any more of it for the purpose of holding it as a permanent investment? A.—Well, when we purchased it originally our idea was to hold it as a permanent investment.

Q.—Do you say that applies to Twin City in particular, that idea of permanent investment? A.—Well, all of these stocks we always intended holding a certain amount of them for permanent investment. At least we did when we purchased them.

Q.—Then Twin City is just in the same category as the rest? A.—Yes.

Q.—If the stock went up you would take advantage of the market and sell it? A.—Yes, we might have.

Q.—Then in 1904 you brought forward Canadian Pacific 1,000 shares and in October you commenced selling that stock. Now it was the end of 1903, wasn't it, that you transferred to the Prudential, or March, 1904. It was between the years 1903-4. It was the inspection of 1903 that brought about the trouble with the Insurance Department? A.—Yes.

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Q.—That trouble occurred in January was it, or when was that first letter from Mr. Blackadar? A.—About February.

Q.—Now apparently before the month of February, before that inspection you had not been buying any of these stocks during January? A.—No, I don't see any there.

Q.—The only items for January would be the Crow's Nest and the Dominion Coal, which formed those two items that you had the trouble about? A.—Yes.

Q.—Your transactions with C. P. R., were they purchases? A.—No, they were sales.

Q.—So that you sold out in the month of October the whole of your C. P. R.? A.—Yes.

Q.—That is the whole thousand shares you sold out of C.P.R. at about 132 to 134? A.—Yes, when we found the new Bill we were counting on was not going to be passed.

Q.—Was it that, Mr. Junkin? A.—Yes, it was that particularly in C. P. R., that was one of the things we wanted to hold a thousand shares of.

Q.—Had you some definite policy planned in your mind to carry and continue to hold 1,000 shares of C. P. R.? A.—Yes, I always thought very favorably of C. P. R., and the Board did too.

Q.—Was there any policy outlined by your Directors to acquire and continue to hold 1,000 shares of C. P. R.? A.—Oh, I cannot say that there was definitely laid down.

Q.—Was it discussed? A.—Yes.

Q.—Then you sold out at anyrate the whole thousand of C. P. R., and you brought forward the Canadian Securities Limited stock which you still hold? A.—No.

Q.—Don't you hold it now? A.—No.

Q.—When did you part with that? A.—In December last.

Q.—December of 1905? A.—At a profit of \$8,000.

Q.—Oh yes, that is in the other statement. Then there is the Ottawa Electric, Twin City and the Sovereign Bank. The Sovereign Bank you still hold? A.—Yes.

Q.—And the Ottawa Electric and Twin City you carried from the end of that year? A.—Yes.

Q.—The Toronto Electric Light you had 1,500 shares that you carried over? A.—Yes, 500 of that came to us by allotment.

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Q.—What did you do with that stock during the year? A.—Well the intention was I remember to sell that 500 and retain the original amount. Let us see what was done. Yes, it was sold.

Q.—The 500 shares were sold and 175 more shares sold? A.—Yes.

Q.—And the balance carried over? A.—Yes, we still had it.

Q.—Then King Edward Office Building Company. Are those the transactions you have spoken of in 1904, when you had to buy out or did buy out the interest of the other parties that were in the company? A.—Yes.

Q.—Then in 1905 apparently you purchased Canadian Bank of Commerce? A.—Yes.

Q.—Have you sold any of that? A.—No I think not.

Q.—You purchased over or about 200 shares of Canadian Bank of Commerce? A.—Yes.

Q.—And then the Dominion Bank, you purchased about 380 shares? A.—Yes.

Q.—Have you sold any of it? A.—We sold some of that this year.

Q.—But I mean up to the end of 1905 you had not sold it? A.—No.

Q.—You were continuing to carry that. The Canadian Securities Company, Limited, you have referred to? A.—Yes.

Q.—We can take that up separately. Twin City, what are these transactions? A.—Sales.

Q.—Did you sell out all your Twin City? A.—Yes.

Q.—You have brought forward 800 shares and I see in January, '05, you sold 800 shares? A.—Yes.

Q.—At about 105 and a fraction? A.—Yes.

Q.—Then you bought on March 6th and July 4th Bank of Hamilton stock? A.—Yes.

Q.—Did you sell any of it? A.—No.

Q.—You still have that? A.—Yes.

Q.—Then you brought forward Ottawa Electric, have you still got that? A.—Yes.

Q.—993 shares? A.—Yes.

Q.—The Sovereign Bank, what have you to say about that? You have brought forward 150 and you bought some more did you? A.—Yes.

Q.—Have you sold any of it? A.—No.

Q.—Part of it was an allotment or all of it probably direct from the Bank? A.—Yes.

Q.—Then Toronto Electric Light, you brought forward 825 shares, did

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you dispose of that? A.—No, we have that yet.

Q.—Union Bank? A.—Yes.

Q.—Winnipeg Electric Railway Company? A.—Yes.

Q.—Those were purchases? A.—Yes.

Q.—Of a good many shares? A.—Yes, 1,600 shares about.

Q.—From Pellatt & Pellatt? A.—Through Pellatt & Pellatt.

Q.—During January and May, 1905? A.—Yes.

Q.—And you still carry that? A.—Yes.

Q.—Well then, the securities that you bought and dealt in in 1905 seem to be entirely different from the securities that you had during 1902 and 1903? A.—Yes, we have retained the most of them.

Q.—There has not been a large number of purchases and sales. Was everything that was bought in 1904 and 1905 authorized? A.—Yes.

Q.—Before it was bought or after it was bought; Mr. McLaughlin asked me to ask that question, he wants to know whether it was authorized by the Insurance Act? A.—Yes, I think without exception everything comes within the Insurance Act.

Q.—Was it all authorized by the Board? A.—Yes.

Q.—Or by the proper Committee in that behalf? A.—Yes.

Q.—There were no transactions other than what you have told us, where the transaction was not authorized before it was made, or ratified by the proper Committee or Board of Directors afterwards? A.—None whatever.

Q.—Then is this list of securities that you have here for 1905 in any way indicative of any line of conduct determined upon by the Board of Directors or the proper Investment Committee or yourself as the Manager? A.—Well, I think it is the result of, I might say perhaps the result of experience. I don't know that there has been any change of policy definitely laid down by the Board except that we are more conservative than we were before.

Q.—Do you mean to say that the different persons who are on the Board of Directors or on the proper investment Committee—what you mean to indicate I suppose is that that is the tenor of their discussion of securities at the present time? A.—Yes.

Q.—More on a conservative basis than it was in 1902 and 1903? A.—Yes.

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Q.—The statement for 1905 would indicate somewhat that stocks were bought to retain? A.—Yes.

Q.—That could not be said of the 1902-3 securities could it? A.—Not of some of them.

Q.—And still you would not care to call them speculative? A.—No, they were a pretty good class of securities.

(Adjourned to 10.30 a.m. on Wednesday, 2nd day of May, 1906.)

EIGHTEENTH DAY.

MORNING SESSION.

Toronto, May 2nd, 1906.

Examination of Mr. Junkin continued:

MR. SHEPLEY: Mr. McLaughlin hands me this in connection with some questions I asked you yesterday about paying Mr. Gooderham or allowing Mr. Gooderham certain commissions on his premiums on his own life insurance policy, and this purports to be a memorandum of Mr. Fackler's upon that subject, do you identify it? A.—Yes, that is the original.

Q.—This was made by Mr. Fackler, your actuary, at the time of the maturity of the policy? A.—Yes, as being the fair way of dealing with it.

Q.—It seems to justify what you said yesterday that the commissions, so far as they exceeded 5 per cent. were taken into consideration in adjusting the tontine payment? A.—Yes.

Mr. Shepley reads the memorandum, which is marked Exhibit 67.

Q.—That is 30 per cent. (referred to in memorandum)— A.—The first year.

Q.—And ten per cent. subsequent years? A.—Yes.

Q.—Was Mr. Gooderham settled with as to his tontine dividend upon that basis? A.—On exactly that basis.

Q.—Have you at all refreshed your memory as to the volume of insurance in respect of which the insured themselves were allowed commissions? A.—No sir, I have not; I have not had an opportunity. There is another matter arose out of yesterday's evidence I would like to refer to.

Q.—You may do that now? A.—It is the matter of these stock bonuses; I find I have not been doing the com-

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pany justice. When I was asked what records there were of these stock bonuses I find they were not only recorded once, but as a matter of fact recorded 52 times a year officially, and in the most emphatic way, that is by a written document presented to the Board weekly showing exactly what bonus stocks are held.

Q.—You told us that yesterday afternoon; these bonus stocks appeared in your weekly reports of investments held to the Finance Committee? A.—Yes, and they became permanent official files of the company in the same way as the minutes or any other official documents the company had.

Q.—I would like you to modify that 52 times a year, because we did not get one for every week—as often as you reported? A.—Yes.

Q.—And if there are reports in which the bonus stocks did not appear it would be by reason of clerical errors? A.—Exactly.

Q.—Has it been the policy of your company under certain circumstances to allow people who insure with you rebates or commissions in respect of their premiums? A.—No, not at the head office, not of late years.

Q.—Speaking of the time before which you would not describe, or which would not fall within of late years, what do you say? A.—I might modify that also of late years; as I explained yesterday any one who is devoting his whole time to the life insurance business has as a general thing been allowed—

Q.—Can you be sure about that, any one who devotes his whole time to insurance business? A.—Who is recognized as a life insurance man.

Q.—What about him? A.—He has generally been allowed when he applied for it 5 per cent. on renewals.

Q.—Any other class of instances? A.—The directors when they apply for it as a general thing have been allowed it.

Q.—Any other class of instances? A.—No, I think not.

Q.—When you speak of directors and life insurance men I understand you to say that that is a policy or a custom which has subsisted even of late years? A.—Yes.

Q.—Always has subsisted? A.—Yes, I believe so.

Q.—Before that time were there other circumstances which were supposed to justify rebates? A.—No, I think not.

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Q.—You see you made a distinction, you said not of late years, then even of late years in the instances you mention rebates have been allowed; before the time you describe as of late years what about rebates? A.—When the company was a young company, and more anxious for business, I think it is quite possible if any one came to the office and said I am prepared to insure with you but I want the agent's commission myself, I do not want the interference of any agent in it, I think it is quite possible he would have been allowed the agent's commission.

Q.—When you say quite possible does your information enable you to say that was done? A.—I cannot remember of a single instance of it since I became manager.

Q.—Is it your understanding it was done before you became manager? A.—I think it was in some cases.

Q.—That is your understanding, it was in every case in which it was asked for practically? A.—No, I would not go so far as that.

Q.—The company would not turn a man away? A.—They would make every effort to get the business without cost if they could.

Q.—But competition was even then keen, was it not? A.—Yes, it certainly was.

Q.—And were there other companies that did allow rebates? A.—Yes, it is a pretty general practice in life insurance, I am sorry to say.

Q.—With the result that in the competition for business the Manufacturers' to keep abreast of the competition would be and was. A.—Forced into the position of giving rebates, that is really the situation.

Q.—What would be the extent of the rebates, I suppose just as little as you could give and get the business? A.—Yes.

Q.—As much as you had to give to get the business. A.—Yes, not more than what would be paid to an agent, generally considerably less.

Q.—Do you say that so far as the Manufacturers' Company is concerned, that that practice has been discontinued since your management? A.—Yes, not all the time of my management, but I should say for perhaps the last three or four years.

Q.—You commenced to be manager in 1895? A.—Yes.

Q.—And the custom of rebates, rebates in the sense we are speaking of now, rebates given to bringing about insurance, that lasted until three or four years ago? A.—Yes.

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Q.—You say it was customary with other companies? A.—Yes. It was introduced into Canada by our foreign competitors.

Q.—When you say your foreign competitors you mean the United States companies? A.—Yes.

Q.—Do you tell us since the period you limit by saying three or four years ago that since that period the custom has been entirely discontinued in the Manufacturers? A.—At Head Office, I have not the slightest doubt that many of our agents—

Q.—At head office you say that custom does not prevail at all? A.—No.

Q.—It has absolutely discontinued? A.—Yes.

Q.—You say so? A.—Well, that would be putting it too strong to say absolutely, but there are very few cases, if any.

Q.—What have you in your mind? A.—I have not any particular case in mind, but still—

Q.—You are guarding your statement; either you laid down and maintained an absolute principle on the subject or you did not, what do you say? A.—If I were giving an answer to that question if we had definitely and absolutely laid down the principle that no one under any circumstances was to get a rebate I would say that we have not.

Q.—Then you have not laid down that definite principle; you understand I am excluding the cases which you have already said prevailed up to the present time, the case of insurance men and directors—excluding those I want to know whether the principle has been absolutely maintained since this period you speak of as three or four years ago? A.—I think it has; excluding those I remember of any case so far as I am aware where rebates have been given of recent years.

Q.—Can you make yourself definite about that? A.—No, I could not, because it may possibly be done without my knoweldge, these minor matters—

Q.—Are you able to say it never has been done with your knoweldge? A.—I think I am.

Q.—Could it be done without your knowledge? A.—Yes.

Q.—By whom? A.—The Assistant Manager or the Secretary, I do not think they would consider they were going beyond their province if it was absolutely necessary to secure the business.

Q.—To what extent has there been

any principle upon the subject laid down if the Assistant Manager or the Secretary— A.—To this extent, sir, that I have repeatedly, time and time again told the different officers of our company that I would much prefer doing without the business than having it with the rebate on a matter of principle; I have gone so far, sir, as to return the cheque of a party on a \$40,000 policy where he sent a cheque for part of the premium. He was not asking for a very large rebate as compared with what an agent would be entitled to, and I took the risk of the policy having to be cancelled. It was not cancelled, because he forwarded his cheque for the full amount afterwards.

Q.—Let us get back to the principle, you have told, if I understand you, those who were under your supervision and control you would much prefer not to get the business at all than to get it at the instance of a rebate? A.—Yes.

Q.—Have you forbidden the granting of a rebate. A.—No, not absolutely.

Q.—Have you left it in the discretion of your subordinate officers to rebate or not as they may deem expedient in the interests of the business? A.—Yes, to that extent, but I have not absolutely forbidden it.

Q.—You have left it in the discretion or you have not? A.—That would practically amount to leaving it to their discretion, they know my opinion that I would rather be without the business than accept it in that way.

Q.—You do not know to what extent that discretion has been exercised in the direction of allowing rebates? A.—Very little at all, I am satisfied of that.

Q.—You are not able to say it has not been exercised to some extent in the direction of allowing rebates? A.—No.

Q.—With respect to agents what are you able to tell us about the rebate custom? A.—Most of our agents are on commission, and they look on the commission as belonging to themselves, and we do not know of course what they do with it.

Q.—When you say you do not know what they do with it, are you aware that as a matter of practice their commission is sometimes in whole or in part foregone for the benefit of the person insuring? A.—Yes.

Q.—You are aware of that? A.—Yes.

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Q.—Is that a prevalent custom to your knowledge? A.—In life insurance.

Q.—Yes, in your company? A.—No, I do not think it is very prevalent, it is not compared with some other companies.

Q.—What do you mean? A.—Compared with the practice of some other companies.

Q.—You do not think your agents are so generous with their own commissions as the agents of some other companies? A.—That is what I mean.

Q.—I suppose your agents are as alive as any other agents to the prime desirability of securing business? A.—Yes, but for years back we have been pressing upon them the importance of holding out for their commission, that the laborer is worthy of his hire, and it is largely a matter of courage after all, if the agent has the courage to hold out for his commission he will generally get it.

Q.—Impressing that upon them, still leaving it to their discretion? A.—Yes.

Q.—You have not forbidden it? A.—No.

Q. Do you consider, I will use plain language, do you consider it honest to the great body of people insuring that some people insuring should get an advantage in the premiums over the others? A.—I think it is the greatest evil in the business.

Q.—You either think it is honest or do not? A.—Well, this matter of commissions enters into business so much—

Q.—I want you to look at it from a large standpoint, the standpoint of the insuring public.

MR. McLAUGHLIN: I do not think Mr. Junkin ought to be asked to express his opinion upon every question that arises. Let us have the facts, and the Commission can decide. He can hardly be asked to brand all the insurance agents over the company as dishonest. Let the ethical question be a matter of inference.

MR. SHEPLEY: My view is, and it is in that view I am pressing the question, that we are entitled to know the considerations which are moving the body of directors of any insurance company.

JUDGE MACTAVISH: I think so.

MR. McLAUGHLIN: My objection is that these ethical questions are really not questions of fact at all, which after all is all we are to bring

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out here, and the Commission will decide the inference that may hereafter be drawn. I have made very few objections, and have tried to facilitate matters as much as possible. The public know, and all know there has been very fierce competition for business, and you cannot say an agent is dishonest who does a thing like that. He feels the commission is coming to him. On the same principle you might ask whether in the selling of goods or wares or merchandise of any kind there is anything dishonest in the seller making the best bargain he can. I think Mr. Junkin and all of us will agree it is a practice that ought to be abolished, and practically every Canadian Company will welcome legislation that will abolish it and make it penal, and which will prevent this unfair competition.

JUDGE MACTAVISH: I think the Commission would like to have the question answered.

MR. SHEPLEY: Now, Mr. Junkin, I want you to take the large view? A.—The question is, is it honest for an agent to give a rebate?

Q.—The question is whether having regard to the large interests involved is it honest that A insuring his life in your company or any other company should be able to do so upon more advantageous terms than B?

MR. McLAUGHLIN: I think the Commission ought to rule on what constitutes honesty and what constitutes dishonesty before that question is pressed.

JUDGE MACTAVISH: The witness may understand the distinction.

MR. McLAUGHLIN: If it is a matter of moral philosophy it depends on the will with which it is done, and not the act itself. Mr. Junkin cannot say what motive is in the mind of the agent.

JUDGE MACTAVISH: He can give his opinion as an experienced insurance man on the question which Mr. Shepley asks if he has an opinion—have you, Mr. Junkin? A.—Well, Your Honor, I will endeavor to answer the question as far as lies within my power.

MR. SHEPLEY: The answer to the question can be put in three letters or two.

MR. McLAUGHLIN: You cannot say that an agent is dishonest if he does a thing in good faith.

A.—Taking everything into consideration, the motive of the company

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and the motive of the agent in giving a rebate, I consider it is honest. The motive is the desire to get business for the company, if the company can get a policy from A. by paying a commission to A of 5 per cent instead of paying 45 per cent to an agent for getting it I think it is honest for the company to get it that way.

MR. SHEPLEY: Q.—I ask you to take the large view? A.—That is what I am endeavoring to do.

Q.—The large view is not the view of writing a particular policy from the company's standpoint, the large view I am begging you to take is the view of the public insuring? A.—As a matter of public policy, if you ask me that I think that if here is any possible way of abolishing rebates they should be abolished.

Q.—That is not answering my question? A.—I have endeavored to answer your question before.

Q.—You endeavored to answer a question from a different standpoint, from the standpoint that I asked you to answer it from I would like to have your view about it? A.—Really I am trying to give my view, it is difficult to give a view on a very broad question of that kind by simply one word.

Q.—Do you think so? A.—I think it is.

Q.—Do you think so? A.—Yes.

Q.—Do you think now taking the public, the broad, wide public, every individual in which may be supposed to desire life insurance, that A, one member of the community, shall be able to get his policy for \$1,000 on better terms than B—you don't, do you? A.—I don't think it is in the interest of life insurance that the practice should continue.

Q.—Do you think it is in the interests of the public? A.—No, I do not. There is no man in Canada who would like to see rebates abolished more than I would.

Q.—Leaving out of question for the moment the subject of competition for business, you can put a stop to rebates so far as your company is concerned if you choose to? A.—It is absolutely impossible.

Q.—Cannot forbid it? A.—I can forbid it, but I cannot put a stop to it, not alone. The Government can put a stop to it very largely.

Q.—Cannot you put a stop to it so far as your company is concerned? A.—No.

Q.—Do you mean to say you have a body of agents who won't obey your

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instructions? A.—If an agent is getting 50 per cent.—

Q.—Did you ever try it? A.—Only in the way I have said; I have given our agents and officers to understand I do not want it, I have never absolutely forbidden it, because it would be absolutely useless.

Q.—You have not forbidden it? A.—No.

Q.—And it is not stopped? A.—No.

Q.—You have not tried whether forbidding it would stop it or not? A.—No, I do not believe in trying anything I know would be useless.

JUDGE MACTAVISH: Would not this be the result, that persons applying for insurance at your head office, as they sometimes do, would not get insurance on such favorable terms as they might by applying to an outside agent? A.—That is the way the matter stands now.

Q.—You yourself, I mean you representing the head office discouraged the practice of rebates? A.—Yes.

Q.—And would not entertain an application made at the head office, but the same individual might by going to one of your agents in the field obtain what he could not get from you? A.—That is the idea.

Q.—Obtaining insurance on more favorable terms than he could get it from the head office? A.—Yes.

Q.—That is the position of matters now? A.—Yes, for the reason that our agents being largely on commission we cannot tell what they are doing with their commissions; they may be giving them to the insured or to sub-agents, or they may be reaping the whole commission themselves. If I may be permitted to say so I believe it is the most important question that the Commission has to deal with, this matter of rebates, and I would like to see a very strong anti-rebate law enforced.

MR. SHEPLEY: Q.—If you cannot enforce it or think you cannot enforce your instructions to your own agents, how do you think a general law would operate? A.—A law with a severe penalty, the law should provide for its own enforcement.

Q.—You can inflict severe penalty, you can inflict the penalty of dismissal upon a man who disobeyed your instructions? A.—Yes, to the advantage of all my competitors, they would immediately pick him up.

Q.—You have what perhaps may fairly be called several insurance fields you occupy with your business? A.—Yes.

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Q.—State briefly what they are? A.—Dominion of Canada, State of Michigan, the West Indies, Japan, the Free Ports of China, the Strait Settlements, India, Great Britain, Bermuda, Egypt, South Africa, Newfoundland; I think that is all.

Q.—Do you occupy these fields with agents? A.—Yes.

Q.—And what is, speaking generally your method of appointment and your scale of remuneration? A.—The method of appointment is first by negotiation with the agent either by myself or the Assistant Manager or other officer of the company, and after we have arrived at a basis of agreement then submit it to the Agency Committee.

Q.—Take for instance Michigan, have you one agent there or a dozen? A.—We have one agent, he might be called a general agent.

Q.—You have a General Agent? A.—Yes.

Q.—With regard to the Michigan field does he or do you employ the sub-agents? A.—He employs the sub-agents, and afterwards the contract is sent to us for approval; they are really the company's employees.

Q.—Who pays them? A.—The company.

Q.—The company pays the sub-agents? A.—Yes.

Q.—They are responsible directly to the Company? A.—Yes.

Q.—And they account directly to the company? A.—Yes, the principal sub-agents do.

Q.—There are some who do not? A.—They might again have men who introduce business to them that they would allow a small—

Q.—With that you would have nothing to do? A.—No.

Q.—You deal directly with and hold responsible either head agent or the sub-agents whose appointment by him you have approved? A.—Yes.

Q.—Is that method pursued with respect to all the foreign fields that you have spoken of? A.—Yes.

Q.—Or is there any difference in any of them? A.—No, I think they are all on that plan, that is all the contracts of any importance; the agent negotiates with his sub-agents and he forwards the contract on to us for approval.

Q.—He may have sub-agents working for him responsible to him, with whose appointment and remuneration you have nothing to do? A.—Yes, the business would come in in the name of one of these other sub-agents.

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Q.—That you say is true with respect to all the fields you are occupying outside of Canada? A.—Yes.

Q.—You have a head agent in each one? A.—Yes.

Q.—And sub-agents in each one whose appointment you have approved? A.—Yes.

Q.—And who account directly to you? A.—Yes.

Q.—Then do you differentiate in your fields of insurance in the matter of premiums? A.—Oh yes.

Q.—Tell us about that please, with some detail? A.—Canada, Michigan, Newfoundland, Bermuda and Great Britain all come under the home rate; then certain of the West Indies and Japan come under what we call the sub-tropical rate.

Q.—State what you mean by certain of the West Indies? A.—Jamaica, I think perhaps that is the only one.

Q.—You are doing business in the other West Indies Islands? A.—Yes.

Q.—But Jamaica is the only one among them that is treated under the sub-tropical rate? A.—Yes, and the others come under the full-tropical rate. I mean the other West Indies.

Q.—And the other foreign fields? A.—Yes, except Bermuda.

Q.—You put Bermuda in the home rate? A.—Yes; and South Africa is the home rate.

Q.—You have three rates distributed as you have said, home rate, sub-tropical rate and the tropical rate? A.—Yes.

Q.—The home rate is supposed the most advantageous of the three to the person insuring? A.—Yes, the premium is lower.

Q.—Can you fix, speaking generally—I do not want you to go into detail at the present moment—the proportions which these three rates respectively bear to each other by percentage or in any way you choose? A.—No, I think that had better be answered by our actuary, who is prepared to go into the matter very fully.

Q.—Is that division a recognized division among insurance people? A.—Yes.

Q.—Your company has not adopted a method of its own of making the differentiation? A.—No.

Q.—Do you maintain strictly an adherence to these specific rates that has been fixed for the particular field or do you permit variation within any particular field? A.—The only variation we permit is in Jamaica.

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Q.—Jamaica is sub-tropical? A.—Yes.

Q.—And what variation do you permit there? A.—Our experience has been so favorable there, and the death rate so low that we followed the practice of the Standard, the company that has been doing business there for many years longer than we have, and have longer experience to go by, and the larger risks, persons insuring for £3,000 or upwards are allowed better rates, the reason for that being that most of these parties are in the habit of taking a trip north or to England, at least once a year, and we think they are better risks for that reason, they get braced up.

Q.—The man who can afford a £3000 policy in Jamaica gets the home rate, the man that can only afford a £500 policy does not get the home rate? A.—Yes.

MR. McLAUGHLIN: That is not the reason of it? A.—The small planters who remain in the Island all the time, and many of them living in the valleys and not able to go to the summer resorts of the Mountains, and that kind of thing pay sub-tropical rates.

MR. SHEPLEY: Q.—Is that the only place where you make that difference? A.—Yes.

Q.—That is the only field where that difference arises? A.—Yes.

Q.—And if I understand you you make that difference in the case of these people who are able to travel and may be supposed to travel north for part of the year? A.—Yes, and also to go to the Mountains in Jamaica, to the resorts.

Q.—You have not introduced a differentiation in the home rate on those principles? A.—No.

Q.—Nor in the tropical rate? A.—No.

Q.—Nor in any other of the sub-tropical fields? A.—No.

Q.—I suppose that those people who are able to look after their health in the home field are better risks than those who have not time to do it? A.—I think all our Canadian risks pretty good risks.

Q.—If you are treating the home field you find certain risks in the home field better than certain other risks? A.—Yes.

Q.—According to whether or not the person insures has the leisure and the opportunity of looking after his health? A.—Yes.

Q.—But you do not on that account differentiate in the home field? A.—Yes, very often we do; I want to cor-

rect the former statement. We very often put a lien on the policy if we consider a man is living in an unfavorable locality or has an unfavorable occupation, or if we learn on inquiry that he is under a great nervous strain, or any financial trouble that is likely to affect his health, or anything of that kind, we either charge him an extra premium or we put what we call a lien on his policy, and that applies also to our tropical and sub-tropical business.

Q.—That is a uniform distinction you make everywhere including the sub-tropics? A.—Yes.

Q.—In addition to that you introduce another difference in Jamaica? A.—Yes.

Q.—So that other difference must have something additional underlying, it, or ought to have? A.—Yes.

Q.—And has it? A.—I have tried to explain what it has.

Q.—You have given me a reason which strikes me as being very much like the reason which underlies the general differentiation? A.—It is because we believe they are better risks as a class.

Q.—That is what you do in the home field when you make a different charge, charge a man an additional premium, or put a lien upon his policy, that is because he is not so good a risk? A.—Yes.

Q.—Why make the further distinction in Jamaica— A.—That is a distinction the other way, it is giving the man a little more favorable terms.

Q.—Instead of giving the other man less favorable terms? A.—Yes.

Q.—You look upon that as a different thing, because it gives one man a more favorable position than another, whereas the general rule gives one a little less favorable position? A.—Yes.

Q.—You really mean that, that to your mind suggests a difference in principle? A.—It does certainly, I might be allowed to—

Q.—I am not going to waste time over that; did you want to make some explanation? A.—Yes, I might be allowed to explain that the commercial classes of Jamaica who are able to take £3,000 or over are a very small part of the community. Parties who are able to take £3,000 there or over, they will be either the owner of a large estate in the Island, coffee plantation, or something of that kind, and generally residing in the Mountains, or they will be a business man of Kingston who is repeatedly running

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up to New York and going to England. We look on them as a different class from the small planter who is residing in the valley generally, and very often in malarial districts, and in our opinion a different class of risk entirely.

Q.—Is the general difference which you have spoken of and which is common to all your fields, common to all insurance companies? A.—Which is that?

Q.—Adding to a man's premium, or putting a lien upon his policy under exceptional circumstances? A.—No, it is not common to all of them.

Q.—Is it common to many or to most? A.—The idea of adding something to the premium is common to many; the lien system is not so common.

Q.—It is in vogue in other companies? A.—Yes.

Q.—And the other method of adding to a man's premium, that is common to many? A.—Yes.

JUDGE MACTAVISH: Will you ask the witness to explain the lien system?

MR. SHEPLEY: Yes. Will you explain the lien system, Mr. Junkin? A.—Take for example a man applies to us for a thousand dollar policy, and we find that there is a certain amount of consumption in the family history, enough to lead us to hesitate as to whether he ought really to be accepted or not, it would be just on the balance if we had not this lien system whether we would decline the risk or accept him. We would probably accept that man say with a lien of 50 per cent. of his policy, that is we put a marginal clause on the policy to this effect, that in case of death during first year instead of paying the thousand dollars we would pay \$500. Then we will allow that to reduce so much per year for the next 20 years, say perhaps \$25 a year, so that at the end of the 20 years the lien has expired. If he outlasts his 20 year endowment policy he would draw the face value of his policy just the same as if the policy had never been liened, but in case of his death the first year, as I said, we would pay \$500, the next year we would pay \$550 and so on.

JUDGE MACTAVISH: That is a matter of contract between the insured and the company? A.—Yes.

MR. SHEPLEY: That you say is in vogue in some other companies, but is not so common as the other method of adding to the premium? A.—No, not so common.

Q.—Then with respect to the differ-

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ence which you make in Jamaica you spoke of the Standard as having adopted that, is that common to any other companies except your company and the Standard? A.—I am not sure, but I think the home company there.

Q.—What do you mean by the home company? A.—The Jamaica Mutual, a very old company.

Q.—You think the Jamaica Mutual does that? A.—Yes; I am not absolutely sure of that.

MR. McLAUGHLIN: Our manager for the West Indies is here, and he can give the information if you like.

MR. SHEPLEY: I am getting Mr. Junkin's knowledge for the present.

Q.—You think the Jamaica Mutual, which is the home company there, does it as well as your company and the Standard? A.—I think so.

Q.—The Jamaica field is occupied by other companies? A.—Yes.

Q.—Canadian Companies as well as United States companies and British Companies? A.—Yes.

JUDGE MACTAVISH: Are you leaving the question of the lien?

MR. SHEPLEY: Yes.

JUDGE MACTAVISH: I would like to ask one question; do you ever put a lien upon a policy, to use your own expression, where the policy is taken originally without provision for a lien? A.—Oh no, it must be a matter of contract at the time when the policy is being issued.

Q.—Then if a person takes out a policy in the ordinary way, and we will say becomes intemperate or in such a way as you find his health is being impaired, you have no provision for making any difference, adding to the premiums or putting a lien on the policy in a case of that kind? A.—No, not in our general business. If he is in the temperance section, the total abstainers' section, we may cancel the policy if he becomes intemperate, and certain provisions are included in the policy providing what shall be returned to him in case of cancellation.

Q.—But in the other branch? A.—No, once a policy is issued it is issued to stay.

MR. SHEPLEY: That leads to a subject that we may perhaps as well discuss for a moment now so far as we are able to speak of it; when your amalgamated company was formed you took over the risks of the two companies, the Temperance & General and the Manufacturers'? A.—Yes.

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Q.—The Temperance and General, speaking broadly, had two sections, the abstainers' section and the general section? A.—Yes.

Q.—That is speaking broadly; I do not want to go too finely into details. There was not any similar distinction in the case of the Manufacturers that you took over? A.—No.

Q.—Under the methods of insurance which you inherited, or may be supposed to have inherited from the Temperance and General, was this a cardinal principle, to make a distinction in favor of the abstainer as against the man who was insured in the general section? A.—Yes.

Q.—Again speaking broadly, just outline what that advantage consisted of? A.—In the non-participating rates he was given a slightly lower premium; in the participating policies, that is policies with profits, the premium was the same, but at the end of the distribution period, when the different policy-holders were entitled to profits, those insured in the abstainers' section would receive larger profits, if the mortality in that section warranted it.

Q.—As a matter of practice was it found that the advantage in respect of mortality was with the abstainers? A.—I understand it was. Since amalgamation?

Q.—The amalgamated company, in carrying the risks, has its experience been the same? A.—Yes.

Q.—That the mortality is favorable to those who are abstainers? A.—Yes.

Q.—And who have so insured? A.—Yes, markedly so.

Q.—With respect of course to those who do not participate in profits, and who pay a lower premium, of course they retain since the amalgamation the advantage they had? A.—Yes.

Q.—That is, they pay the lower premium? A.—Yes.

Q.—With respect to those who participate in profits, how is that, have you preserved in the amalgamated company the advantage which was secured to participating abstainers? A.—The old business of the Temperance and General?

Q.—Yes? A.—Yes.

Q.—How? A.—By continuing to pay, as I understand it, the same profits and making the same distinction that the Temperance and General were making before.

Q.—Are you sure about that? I do not want you to be tied to it at

all if you are not quite sure, because I understand it to be quite the other way. A.—Well, I am not quite sure. Mr. Papps will know.

Q.—I understand the information from Mr. Papps is to the contrary of that. If you don't know about it I do not want at all to commit you to something you are not sure about? A.—Well, I cannot say that I know definitely, but that was the way I understood it; that is with regard to the policyholders of the old Temperance and General, that they were dealt with in the same way as before.

Q.—That is your understanding about it, but you are not sure about it? A.—I am not sure.

Q.—I do not want to tie you to it at all, because we do not want to go upon erroneous statements. If that advantage is not preserved and secured to the abstainers' section of the Temperance and General, of course that would not be fair to that section, I suppose we can all agree to that? A.—We are making a very extensive and thorough investigation now, going back to the beginning of both companies, and taking every individual policy.

Q.—So I understand from what Mr. Papps has said. A.—With the intention of giving every policyholder just exactly.

Q.—I am more concerned for the moment with the question of what your practice has been in that regard, and that I do not want to take from you unless you are conversant with it? A.—I had better leave that to Mr. Papps, who is more familiar with it.

Q.—You have not I suppose taken part in the investigation which has been made, or the computations which have been made for the purpose of ascertaining the extent to which the mortality favors the abstainers' section? A.—No.

Q.—Does the amalgamated company do business in sections in a similar fashion? A.—In total abstainers and general, yes.

Q.—You are preserving that distinction? A.—Yes.

Q.—And you are giving the advantage to the abstainer upon the two principles that you have already spoken of as to non-participants, by lowering the premium, and as to participants by maintaining the premium, but giving a better share of the

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profits? A.—We have been until recently.

Q.—What do you mean by recently? A.—This last three or four months.

Q.—What change have you made in the last three or four months in that respect? A.—We have consented to temporarily withdraw our non-participating temperance rates on the understanding that the companies in general would come to something like a definite practice on non-participating business.

Q.—Just tell me what you mean by withdrawing the non-participating rate? A.—Well, all business written on our non-participating business now is written at the one rate, that is all our home business.

Q.—That is you do not give the advantage to the non-participant of the lower premium? A.—No, pending the investigation we are making to see more thoroughly whether the experience of a great many years, 18 years now, would bear that out because a non-participating policy once it is issued, there is no chance of adjusting it afterwards.

Q.—No, the tree that is cut down lies where it falls. You cannot make an alteration in that, but with respect to business you are now writing and have been writing during the last three months? A.—We only have the one rate.

Q.—And that is the rate that you charged in the general section prior to three months ago? A.—Yes.

Q.—When you say that you consented to withdraw that advantage, just what have you in mind, with whom were you consenting? A.—With the actuaries and other companies. There was a discussion between the actuaries of a number of the companies on what would be considered a fair non-participating rate, and with the idea of arriving at a uniform rate which would be the result of the combined experience of the different companies.

Q.—Was that in any way through the Managers' Association? A.—Yes.

Q.—That was through the Managers' Association? A.—Yes.

Q.—You are a member of that Association? A.—Yes.

Q.—And it was at a meeting of the Managers' Association that this was arranged? A.—Yes, it was referred by the Managers' Association to a Committee of Actuaries.

Q.—And that reference to the Com-

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mittee of Actuaries is still outstanding? A.—Yes.

Q.—There has not been a report upon that? A.—No.

Q.—Do I understand that your adherence to the uniform rate in the meantime is only provisional? A.—Yes.

Q.—Until your own investigation has determined what your own experience will warrant? A.—Yes.

Q.—Is the idea as you understand it—you can only speak, of course, as you understand—that the attempt is being made to adopt a uniform rate which will be somewhat larger than the abstainers' rate has been, and somewhat smaller than the general rate has been? A.—No, my understanding is that it may be lower or it may be a little more than our general rate, but that it will probably be somewhere about our general rate now.

Q.—And that is to be determined by what is found to have been the result of your experience, is it? A.—Yes.

Q.—What I want to get at is whether the abstainer is to be levelled up, or whether the general insurer is to be levelled down, or whether there is to be a compromise as you understand it? A.—Well, when we make our own investigation—

Q.—No, I mean with regard to the Managers' Association, because there is where they are attempting to get at a fair, uniform rate? A.—The idea is that the abstainers would come up.

Q.—That of course is not in accordance with the experience of your company as you have stated it to me, and assuming that your knowledge of that is well founded? A.—Yes, that experience is only extending over a few years.

Q.—But may I say that the difference has been quite marked in favor of the abstainer? A.—Yes.

Q.—Do you know when it is intended that the actuaries who are investigating that question are to report and the matter will be dealt with? A.—No, I don't.

Q.—Is it to be within a short time or is there a year or two to elapse? A.—They might probably have been prepared to make their report before this date, if they had not been so busy preparing for this investigation.

Q.—Then I understand you to say that it is intended to be done promptly? A.—Yes.

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Q.—And who are the actuaries engaged upon it, is your actuary one of them? A.—Yes.

Q.—Is there any objection to your telling me what other actuaries are engaged, or perhaps you don't know? A.—I don't know definitely.

(Call Loans.)

Q.—Now, Mr. Junkin, I want to go back to a subject that you may think is already pretty well worn, but I want to present it to you in a somewhat different aspect. Your company has, during the last three or four years, been very largely investing, to use that expression, in call loans? A.—Yes, fairly so.

Q.—And had the subject matter of these investments, the security upon which they were made, coincided in any respect with your more permanent investments? A.—Yes, I think they have.

Q.—Let me take an instance or two. For instance, Mexican Light and Power. In 1903 you seem to have purchased bonds to the total of \$45,000. Would that be according to your recollection, or shall I get the bond sheet? A.—\$50,000.

Q.—And in 1904, you sold to the extent of \$10,000 out of the fifty, is that right? A.—I thought it was \$2,500.

Q.—I don't know that that is important. Then about call loans upon Mexican Light and Power, could you give us an estimate without having your memory refreshed as to what call loans were out during the time you were holding these bonds? A.—I could not.

Q.—I see that on the 15th of June, 1904, you seem to have made a call loan to Mr. Pellatt of \$25,100? A.—If it is in the records.

Q.—You do not doubt that? A.—No. My recollection is that we were quite prepared to lend on that to any broker at that time.

Q.—Then on the 26th of October, 1904, a call loan to Mr. McCrea of \$40,000? A.—Yes.

Q.—In the same month a call loan to the Prudential Securities Company of \$45,625? A.—Yes.

Q.—In November of the same year Brouse, Mitchell & Co., two call loans of \$16,000 and \$18,000 respectively? A.—Yes.

Q.—In the same month a call loan to the Canadian Securities Company, \$37,500, and to Sutton of \$3,500? A.—Yes.

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Q.—In December, call loans to Mr. Waldron, Mr. Alton, Mr. Brown, Mr. Morton, aggregating about \$18,000? A.—Yes.

Q.—And December, call loans to Brouse & Mitchell of sixteen and four thousand respectively? A.—Yes.

Q.—Then Pellatt in January, 1905, got \$2,000 and \$61,000 on call on the security of the same stock? A.—Yes. Bonds I should say, instead of stock.

Q.—The Prudential, another \$2,800? A.—Yes.

Q.—The Prudential, another \$92,000 in January, 1905? A.—Yes, all assuming that this memorandum is correct. Mr. Franks tells me that \$2,800 was not upon the Mexican, but was upon the Winnipeg Electric.

Q.—Then you do not challenge this \$92,000 to the Prudential Securities on the 10th of January? A.—No.

Q.—\$10,000 to the Canadian Securities on the 21st of February? A.—Yes.

Q.—And in February another \$3,750 to the Canadian Securities? A.—Yes, in the meantime there seems to have been amounts repaid.

Q.—I am coming to that. I want to get one side of the account first.

Q.—Then these gentlemen, Alton, Brown, Waldron, Sutton, and Morton, apparently got call loans again to the same amount as the call loans of the preceding year, and on the 8th of May, 1905, the Dominion Securities, a call loan of \$75,000. That was partly on electric Development. Now during that period of less than a year, commencing with June, 1904, and ending with May, 1905, you seem to have put out in call loans about \$450,000 or \$460,00? A.—I could not speak for the amount.

Q.—That is what they seem to total up? A.—That would be less repayments made in the meanwhile.

Q.—We will come to the repayments, but that is the total amount you seem to have put out in call loans upon that security, the Mexican Light and Power Company security. Is that right? A.—If this memorandum is correct, and you do not take into consideration the repayments.

Q.—I am going to take into consideration the repayments. I just want to get the statement, if that seems to have been the amount you put out in call loans during that period? A.—Yes.

Q.—Between the 15th of June, 1904, and the 8th of May, 1905. Who are Sutton, Waldron, Alton, Brown and Morton? A.—Mr. Waldron is general

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agent for the company in Hamilton. Mr. Alton I don't know. Mr. Brown I don't know, or Mr. Morton. Mr. Sutton is chief of our Claims Department.

Q.—Then he belongs to the company too? A.—Yes.

Q.—Do you identify Mr. McCrea with anybody else? A.—Yes, he is a partner of Sir Henry Pellatt.

Q.—Then we can put Pellatt and McCrea together. Pellatt \$23,100; McCrea \$40,000; Pellatt \$63,875. You do not identify your own agents with Mr. Pellatt in any way, or do you? A.—No, in no way.

Q.—Mr. Pellatt then went to the Manufacturers and borrowed on call \$126,975 upon the security of Mexican Light and Power? A.—Yes, he had that amount of loans at some particular time of the year, or in that period.

Q.—He got the first in June, \$23,000; he got \$40,000 in October, and he got the balance in January? A.—Yes.

Q.—Then when does he disappear, or can you tell? A.—I cannot tell from that statement.

Q.—Has he disappeared altogether, or is he still owing you on call in respect of Mexican Light and Power? A.—Not a dollar, or on any other security.

Q.—Then the Prudential Securities, let us see what they got altogether, \$21,882; \$45,625; \$92,276? A.—The ledger would really show the matter more clearly. It would show the amount they had at any one time.

Q.—This will satisfy me for the present. \$160,000 seems to have been lent to the Prudential Securities Company, the composition of which we all know? A.—Yes.

Q.—Now the Canadian Securities Company, let us take those; \$37,500; \$10,000; \$3,750; \$51,000 to the Canadian Securities Company? A.—Mr. Franks tells me there never was more than \$37,500 at any one time to the Canadian Securities on that security.

Q.—That may be so. You are right, because the \$10,000 followed after the \$37,500 had been partially paid off. And 126 or \$127,000 to Mr. Pellatt. We have got the particulars here and I am going to give the other side of the account. Mr. Pellatt in January repaid \$5,400. That is the only payment I have got by Mr. Pellatt until October, 1905, so if you like you can say \$120,000 instead of \$126,000. Then let me take another class of bond investments. Imperial Rolling Stock Company. Your investment in that

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fluctuated; in 1903 you got about \$100,000 of that, \$97,000 odd? A.—Yes.

Q.—In 1904 there were movements, you bought and sold. In 1905 you bought and sold, and in 1906 you bought and sold, buying altogether \$204,000, and selling altogether \$122,000. Is that about right? A.—That is about right.

Q.—That was what we may by comparison dignify with the name of permanent investments. Now let us see what you were doing in call loans. How much did you lend to MacKenzie and Mann in 1904? A.—I don't know.

Q.—Apparently, according to the statement that has been furnished us, \$137,000 odd? A.—That is the matter we dealt with the other day. Yes, that would be right.

Q.—Secured to the extent of \$82,500 by Imperial Rolling Stock stock? A.—Yes, these call loans are all made on the bonds, but the MacKenzie & Mann transaction we had up the other day was on stock.

Q.—Do you remember how you dealt with your investment? If you haven't it clearly in your recollection I will not trouble about it. A.—The Imperial Rolling stock.

Q.—Yes? A.—Yes, I remember distinctly our reason for selling those. We bought them with the idea of holding them until maturity, and when we sold it was with the expectation that we would be able to get some of the next issue at a lower price.

Q.—Then you seem to have made a call loan to the Canadian Securities Company, or two call loans to be accurate, one of \$93,000, and the other \$35,000 upon Imperial Rolling Stock Bonds? A.—Yes, we considered them a very guilt-edged security.

Q.—Now let us take Electrical Development Company. You had as an investment what we heard of yesterday, certain bonds, and you bought certain bonds afterwards. Your total purchases were \$136,000 in Electrical Development, is that right? A.—Somewhere in that neighborhood.

Q.—And most of that you still hold? A.—Yes, all of it.

Q.—All of it except \$4,000? Apparently you have sold out \$4,000? A.—I was not aware of that. I might explain that \$4,000, that was not a sale, that was a return from the bonus stock.

Q.—That was a realization. Very well, then you hold all you ever did hold? A.—Yes, and that \$4,000 reduced the price that amount.

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Q.—Then I see you lent Pellatt in December, 1904, \$80,000 on call on that security? A.—Yes.

Q.—In April, 1905, another \$77,000? A.—Yes.

Q.—In the meantime he had repaid part of the \$80,000, some \$68,000? A.—Yes, that was a very large part of it.

Q.—He borrowed on the 5th of December, he repaid in the same month what he did repay of the \$80,000. Then in April you lent him another \$77,000 on call upon the same security, and in May he paid back \$50,000 of that? A.—Yes.

Q.—Then in September and November you lent \$146,000 to Mr. McCrea, who is Pellatt. That seems to be right? A.—Yes.

Q.—Then you lent in May of 1905, \$75,000 on this security and another security to the Dominion Securities Company? A.—Yes.

Q.—And there are some other small call loans which I will not take up time with. From January of 1905 down to November of 1905, you gradually called in these loans? A.—Yes.

Q.—Then let us take one other security; Winnipeg Street Railway. Did you invest in Winnipeg Street Railway? A.—Yes, we have 1,600 shares.

Q.—And the par value? A.—\$100.

Q.—You still hold those? A.—Yes. They show us a profit of about \$60,000 or \$70,000.

Q.—Now Mr. Mann borrowed first from you \$28,000 on call, and afterwards \$20,000. The \$28,000 remained on call for something over four years? A.—Yes. During that time the security was two or three times the amount of the loan.

Q.—And the other \$20,000 for two years; December 30th, 1905. That is right isn't it? A.—Yes.

Q.—Then the Prudential borrowed \$37,950 from you on call? A.—Yes.

Q.—On that same quantity? A.—Yes.

Q.—In 1904, and I am told that at the time \$37,950 was borrowed by the Prudential the market value was only \$38,000. Are you able to speak of them? A.—I think that is about correct.

Q.—Then the Prudential borrowed another \$20,618, which is said to have been the full market value, in November of the same year? A.—I cannot speak about the market value at that time.

Q.—At all events they did borrow that amount? A.—Yes.

Q.—Pellatt & Pellatt another \$30,000 in November, December and January? A.—Yes.

Q.—And in May of 1905 you realized on what the Prudential Securities Company had, you called in the Prudential Securities loan? A.—Yes.

MR. McLAUGHLIN: That was the time the Prudential Securities was wound up.

MR. SHEPLEY: Mr. Mann you called in in December, 1905, and Mr. Pellatt repaid in February, 1905. That seems to be the history of that? A.—Yes.

Q.—Then you were telling my learned friend Mr. Tilley yesterday about the Chicago and Milwaukee investment. You held altogether of Chicago and Milwaukee how much? A.—How much we held as an investment?

Q.—Yes. A.—I think it was \$200,000 of bonds. 147 Mr. Franks says the books show.

Q.—\$148,050 was what you seem to have paid out, and you got in \$2,910. \$145,140. Now there seems to have been a pretty heavy business in call loans in that. You recollect that there was of course? A.—Yes.

Q.—And you have a good deal out on call on that now? A.—Yes.

Q.—Now let us see if we have got that correctly. You lent in October and November, 1904 on call to Osborne & Francis \$50,000, is that right? A.—Yes.

Q.—That was repaid partly in December, and partly in January of 1905? A.—Yes.

Q.—Then in August, September and October, you made call loans to the same firm to the tune of \$240,000? A.—Yes.

Q.—And during that year that was all paid back to you? A.—Yes.

MR. McLAUGHLIN: It would be well to state how much was loaned to him at one time. Instead of aggregating all the loans. A.—Mr. Franks says \$153,500 was the most they had at any one time.

MR. SHEPLEY: What I was getting at was this, their transactions in the way of call loans and repayments during that period, from August to October, 1905 amounted to \$240,000, debit and credit? A.—Yes.

Q.—Then in December, 1905, you loaned them another \$50,000? A.—Yes, the \$240,000 having been repaid.

Q.—I said so. That transaction ran from August to October. A.—Will you allow me to correct my statement, I said the \$240,000 was repaid. I

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should have said all the loans were repaid. They never had \$240,000 at any one time, so that they could not repay it. I do not want to give the press a false impression that they had \$240,000 from us at any one time.

Q.—\$153,500 was the largest they had at any time. A.—And there were other securities I understand mixed in for that amount.

Q.—Now in December you lent them \$50,000? A.—Yes. Mr. Franks says that \$50,000 was repaid in a few days.

Q.—When was it repaid? A.—\$25,000 repaid on the 11th, and \$25,000 on the 12th of December.

Q.—Then in January you lent them another \$5,000? A.—Yes.

Q.—In February \$31,500, \$14,400 and \$27,700? A.—Yes.

Q.—And in March, \$11,700? A.—Yes.

Q.—In the meantime they had paid back the \$20,700? A.—Yes.

Q.—And the balance is still out, \$231,400, for which there are other securities? A.—Yes.

MR. SHEPLEY: Then I want to say this, your honors; I want to have Mr. Junkin subject to recall, but at present I propose to leave him, and go into another branch of the inquiry, of course connected with the Manufacturers' Life.

MR. HELLMUTH: I would like to be allowed to ask Mr. Junkin some questions.

MR. SHEPLEY: My learned friend has been good enough to indicate to me the subject matter, and I can offer no objection at all. My learned friend is also good enough to say that so far as the examination has been developed it is still in my hands.

MR. HELLMUTH: Oh certainly.

MR. SHEPLEY: I see no reason at all for objecting.

MR. HELLMUTH: Some other line may come up which I will speak about of course.

Q.—Mr. Junkin, you were associated with those managers of the Life companies in Toronto who went to Ottawa in reference to the legislation of 1899? A.—Yes. Through the Managers' Association.

Q.—You yourself taking a more or less active part? A.—Yes.

Q.—Was it more or was it less active? A.—Well I might say less. I didn't take a very active part.

Q.—Were you in accord with the views of the Toronto Managers as to the desirability of that legislation? A.—Which part of it sir?

Q.—Any part of it, or as a whole

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first? A.—I was quite in accord with the part that extended our powers in the matter of investment.

Q.—You were in accord with that part of it which gave greater powers to the insurance company to invest in a wider range of securities? A.—Yes.

Q.—And what was your attitude in regard to that part of it which altered the rate of reserve? A.—At the beginning I was not in favor of any change in that respect. I afterwards changed my views, because I thought it would compel all companies to be more conservative in the matter of expenses, the fact that they had to comply with the same stringent requirements in the matter of putting by reserves.

Q.—So that whatever your first attitude was, you were eventually converted or perverted to the view that you would favor the view favored by the other Torontonians of a lowering of the rate of interest? A.—Yes.

Q.—And I suppose you had interviews with people in Ottawa about it? A.—Yes, I went to Ottawa once while the Bill was before the Committee.

Q.—Who did you see? A.—I didn't interview anyone there, except the gentlemen who went down with me; I was not one of the speakers.

Q.—Were you on any deputations that interviewed anybody? A.—Yes.

Q.—Who did the deputations see? A.—The Minister of Finance and the superintendent of Insurance.

Q.—Is that the present Minister of Finance, Mr. Fielding? A.—Yes.

Q.—The deputation saw Mr. Fielding and Mr. Fitzgerald? A.—Yes.

Q.—And were there divergent views expressed at the interview, the first meeting with these gentlemen, the Minister of Finance and Mr. Fitzgerald? A.—Divergent views expressed by?

Q.—By those representing the various insurance companies? A.—I think not. The only part of the discussion I remember in that interview was in connection with the investment features. We were all in accord there.

Q.—Had you nothing in that interview about the change in the rate of interest for insurance reserves? A.—I cannot remember that being discussed in that interview.

Q.—Was that not discussed at any time to your recollection before the Finance Minister or Mr. Fitzgerald, or either of them? A.—I was only on one delegation; I think there were other delegations that went there.

Q.—So that you cannot throw light on that? A.—No.

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Q.—You heard no discussion? A.—No, except before the Committee of the House.

Q.—Then it did come up before the Committee of the House. A.—Oh, yes.

Q.—And before the Committee of the House there were divergent views expressed? A.—Yes.

Q.—Do you remember the attitude of Mr. Macaulay of the Sun Life? A.—Yes, very distinctly.

Q.—He was very hostile to any change in the rate of interest imposed by the Government? A.—Yes.

Q.—To the lowering of the rate of interest? A.—Yes.

Q.—Were you present during his speech or discussion of the subject before the Committee? A.—I was, yes.

Q.—And did you take any part in that discussion? A.—The principal speaker representing the views of most of the Ontario insurance companies was the late Mr. McCabe.

Q.—Was there any discussion outside of those representing the insurance companies before the Committee on this question? A.—I cannot remember of any.

Q.—Do you remember whether any of the members of the Committee took part in the discussion. A.—Oh yes, a number of them did. I remember a Kingston gentleman, I cannot just think of his name now, but he is one of the Directors of the Ontario Mutual, I remember more from his personal appearance than anything else, his discussing it at some length.

Q.—He was a member of the Committee? A.—Yes.

Q.—What date are we now discussing? A.—I could not say.

Q.—It is a date at all events prior to the Act coming into force of course? A.—Yes.

Q.—In the discussion during that Session? A.—Yes.

Q.—When this proposed Act was being dealt with? A.—Yes.

Q.—Now this Kingston gentleman, do you mean that he was one of the Managers or representatives of the Life Companies, or was he a member of the Committee, a member of the House? A.—He was a member of the Committee, but he really spoke both ways, both as representing—he was on the Board of the Ontario Mutual.

Q.—Do you remember his views, was he in favor of the change so far as the lowering of the rate of interest? A.—I think he was, but I would not be positive about that.

Q.—Do you remember Colonel Tis-

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dale's attitude in that Committee? A.—No, I do not.

Q.—Do you remember that he said he represented the policyholders, and making very strenuous objections? A.—I don't remember that.

Q.—You don't remember some member of the Committee doing that and pointing out what an effect it would have upon them? A.—Yes, I do.

Q.—That the result must be that they could not get profits for some time. You remember that? A.—Yes, that was the argument used.

Q.—That argument however did not prevail? A.—No.

Q.—And was that the only meeting at which you were present? A.—Just the two, that is the interview that I spoke of before with the Finance Minister, and Superintendent of Insurance, and then this delegation to the Committee of the House.

Q.—Then I suppose Mr. Junkin, after that legislation you began to get your house in order for the changed reserve; I suppose you began to lower your interest rate in calculating your reserve? A.—Increasing the reserve, I cannot just say what the records are in that regard.

Q.—I am not going into details at all. Don't you know what policy your company adopted in regard to that matter? A.—I do in a general way.

Q.—You made no change whatever on the business written before 1900? A.—I think we changed some of it. The blue books will tell.

Q.—The blue book for the year ending 1904, up to that date, shows that the reserve on the Manufacturers is based on the actuaries H.M. mortality table with interest at $4\frac{1}{2}$ per cent for policies and bonus additions issued prior to January 1st, 1900. You had not therefore at the time that this was issued, made any alteration or provision for a lower rate on the policies issued prior to January 1st, 1900? A.—No.

Q.—Have you done so since? A.—If you will allow me to look at the last—

Q.—But don't you know, without looking it up, a question of that kind, don't you know what the policy of the company is? A.—I know that we have not made any very material changes.

Q.—Have you made any changes whatever in regard to the calculation of the rate of interest on policies is-

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sued prior to January 1st, 1900? A.—If you will just allow me to refresh my memory with the actuary, who is present, to have a moment's conversation with him, I will answer your question definitely.

MR. McLAUGHLIN: The actuary will give you all that information.

MR. HELMUTH: I just want to know from the Manager if there has been. A.—If there has been it will be a very small amount.

Q.—You have up to 1910 to make that alteration? A.—Yes, we have up to 1910 to reduce it to 4 per cent, and then we have still longer.

Q.—And then until 1915 to reduce it to 3½? A.—Yes. Our general policy in the meantime is to allow the surplus to gradually increase, so that at the end of the time we will be able to take it from the surplus, at the end of 1910.

Q.—Then that surplus will be of no benefit for division among the policy-holders? A.—Oh, we expect to have a good deal left for that too.

Q.—But you are going to make your change I understand it in 1910 out of the surplus? A.—The first step towards it, yes, that is the only place it can come from.

Q.—What you could do is another matter. I want to know what you are doing.

MR. McLAUGHLIN: We are complying with the law.

MR. HELLMUTH: Complying with the law in that respect. Then the new business is of course on the 3½ per cent basis? A.—Yes.

Q.—And the old business, to put it shortly, is to be put on the 4 per cent basis out of the surplus? A.—Yes.

Q.—So that it depends of course on what the surplus is how soon it can be put? A.—Yes.

Q.—Is that right? A.—Yes, that is right, to a certain extent. We could do it now, we have surplus enough to do it now, and still have a fair surplus left.

Q.—This document, on its face called the 19th annual report of the Manufacturers, purports to show the business for the year 1905? A.—Yes.

Q.—In that pamphlet, of which I will put in a copy, the securities held by the Manufacturers are set out in detail are they not? A.—Yes.

Q.—Now on page 15, the total par value, ledger value, and market value of these securities are set out? A.—Yes, that is the stocks and bonds.

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Q.—The grand total par value being \$3,921,000, I will leave out the odd dollars? A.—Yes.

Q.—The ledger value \$4,079,000, and the market value \$4,177,000? A.—Yes.

Q.—The ledger value of course means the cost of those securities to you? A.—Yes.

Q.—And it is quite evident from the par value being so much below that they were purchased at a then market value above par, when you got them? A.—On the average slightly over par.

Q.—Then you put in the market value in another column, that is the market value of what date? A.—The 31st of December.

Q.—How do you get that market value, are they quoted on the various exchanges? A.—Almost all. The municipals of course are not quoted, municipal bonds, but we generally have so many different offerings coming in all the time from different brokers, all of which we keep on file, that we arrive at it in that way.

Q.—Now those stocks and bonds in this pamphlet were all at that date in the possession of the company? A.—Absolutely.

Q.—Had not been disposed of? A.—No.

Q.—And in some instances the blocks of stock and bonds held by the company of particular securities were pretty large, considerable blocks? A.—Well, the general principle we follow now is not to put more than 5 per cent. of the assets into any one.

Q.—5 per cent of the assets of what? A.—Of the company's assets.

Q.—But 5 per cent of the company's assets might buy a very considerable block of stock? A.—Yes.

Q.—You would take in your statement which value, in your statement of assets? A.—The market value. We enter all three.

Q.—But when you are making up a statement of assets and liabilities, which of these values do you calculate for your assets? A.—For the annual meeting?

Q.—For the statement that is sent out? A.—The statement to the Government gives all three.

Q.—For the statement to your shareholders, or policy-holders? A.—Well, this is a statement to our shareholders and policyholders.

Q.—I see you take the market value. JUDGE MacTAVISH: Supposing you were calculating on 5 per cent,

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and going to invest the full amount in securities. A.—That would be the cost.

Q.—In that case it would be the ledger value? A.—For instance supposing we were buying \$100,000 bonds at a premium of 10 per cent., paying 110 for them, I would consider that if the total amount of that business came to 5 per cent. of our assets, that we certainly should not go above that figure. As a matter of fact I don't think we have ever gone as high as that.

MR. McLAUGHLIN: The Insurance Department requires the three columns, and the excess or deficiency to be added to or deducted from the total.

JUDGE MacTAVISH: What do you consider the assets of the company? A.—The market value.

MR. McLAUGHLIN: Your honor will see the way the statement is made up. There are the three columns made up so as to show the cost, the par value, and the market value. These are footed up; if the market value is less than the cost value, the amount that it is less must be deducted from the cost value and the balance brought down as assets. If the market value exceeds the cost value the amount which it exceeds is added to the cost value, and the sum is brought down as the assets, so that it is really the market value on the 31st of December every year that the Insurance Department requires the company to make the statement up in accordance with.

JUDGE MacTAVISH: Well, you will excuse me, Mr. Hellmuth, for interrupting you.

MR. HELLMUTH: Certainly, your honor.

Q.—In this balance sheet where your liabilities and assets appear, you take in these municipal debentures, bonds and stock? A.—At the market value.

Q.—Now let me understand that. If in the year preceding you had purchased these various bonds and stock for some \$4,079,000, and at the end of that year their market value had increased so that they were worth just about \$100,000 more, as they appear here, \$4,179,000, you would take credit in your statement for practically having made \$100,000? A.—Yes, showing the full facts.

Q.—That is what you would show in your statement. Now if they went down \$100,000 you would show your loss at \$100,000 that year? A.—Yes.

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Q.—So that assets which are bringing in exactly the same rate of interest year by year may one year appear in your statement as worth \$4,000,000 and the next year might appear as worth four and a half million, although there would not be any change or a copper of benefit to the company or anybody else by way of dividend or interest, that is so is it not? A.—Yes.

Q.—So that the assets as shown to the shareholders and the policyholders in the statements put out vary according to the speculations on the stock exchange or financial depressions or inflations? A.—Well, we give them all the particulars.

Q.—No, you tell nothing in this particular statement of assets and liabilities, except the individual liabilities.

MR. McLAUGHLIN: That is not the case; there is an abstract and then a detail.

MR. HELLMUTH: I have got this before me. You give a certified statement by your auditors or by auditors or the balance sheet of the company showing the liabilities and assets, that perfectly plain? A.—Yes, that is the general practice.

Q.—I am not quarrelling with the general practice, I want to get the facts. You say that amongst the assets of the company are municipal debentures, bonds and stocks \$4,177,000, leaving out the odd dollars. Now as a matter of fact they did not cost you that, they cost you \$4,079,000 and you put \$4,177,000 as their value because on a given day on the stock exchange, if you could have sold them you could have got that for them, isn't that about it? A.—Yes, that is right.

Q.—But the next morning you might not have been able to get more than \$4,077,000? A.—That would be possible; hardly probable.

Q.—Your assets in that way would vary from day to day if you had to give statements of your assets, according to the fluctuations of the stock exchanges? A.—Yes, and the bond market.

MR. McLAUGHLIN: But we have only 8 per cent. of our total assets in stocks that fluctuate in that way.

MR. HELLMUTH: I am not saying what you have. I am merely getting the facts. Then, Mr. Junkin, it follows that the surplus would rise and fall with the stock exchange barometer, \$100,000 might come off it one day or

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go on to it the next? A.—It is possible, yes.

Q.—Now I see a report signed here by yourself and the President, in which you say on page 5 the net results as far as policyholders are concerned are that out of a total net income of \$1,945,840.31 the sum of \$468,687.21 has been paid them in cash; \$946,828 has been laid by according to Government requirements to provide for policyholders future claims and \$135,043.52 has been added to the surplus from which profits on policies are payable, a total of over a million and a half either paid to or saved for policyholders. You recognize that statement? A.—Yes.

Q.—About \$100,000 of that surplus is in the added value of the securities? A.—During the year? No. not at all.

Q.—Not during the year? A.—No, no part of it.

MR. SHEPLEY: My learned friend Mr. Hellmuth has only arrived in town this morning from being absent, and suggests that if we adjourn a little earlier he will be ready at two. I am quite willing that that should be done.

At 12.45 adjourned to 2 o'clock.

AFTERNOON SESSION.

Resumed at 2 p.m. May 2nd, 1906.

MR. SHEPLEY: Before my learned friend goes on I wish to make a statement to the Board upon this subject which is giving us some embarrassment. Your Honors will remember that we framed certain questions which were sent to the various insurance companies with a view to facilitating the inquiry. Some of the questions have been in respect of their answers not only very prompt, but very full and very satisfactory, some of the principal companies, some of the companies whose business is the largest have been, as I say, eminently satisfactory in the method in which they have met the request that we made. Others have not been so, and I wish to make it public that we must so far as we can properly do so insist in conducting the enquiry upon more prompt and satisfactory treatment by the companies of the questions which have been asked. It is very embarrassing and hampering in preparation for the daily sittings of the Commission that we should not have at hand so much of the material to be prepared

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as is ready, and I make that statement in the hope that it will stimulate the companies to a little more vigorous effort.

JUDGE MACTAVISH: Have you any explanation of the delays from the companies who are delaying the returns.

MR. SHEPLEY: They say it is a tedious matter. I do not know that there has been anything in the nature of an explanation; there has been excuse but not explanation. I ought to say that does not apply to the Manufacturers', whose answers were early and full.

JUDGE MACTAVISH: The companies are, I think, well aware of the fact that it would very much facilitate the work of the Commission if the information asked for were furnished as promptly as possible. The information asked for is within the knowledge of the companies, and we think should be supplied with as little delay as possible.

Examination of Mr. Junkin continued by

MR. HELLMUTH: Q.—I do not know whether I correctly understood you to say that practically no part of the writing up of those bonds and stocks from the ledger to the market value, aggregating in all about \$100,000, was included in the shown surplus? A.—No, no, I did not say that.

Q.—In the surplus that is shown in the balance sheet in this pamphlet which will be filed as Exhibit 68, how much of that surplus is covered by the writing up in the year 1905 from the ledger value to the market value, roughly? A.—I could not tell; you are referring now to the total surplus.

Q.—You say total surplus including the paid-up capital of 906,000 odd dollars, that I suppose could be ascertained by seeing how much in the previous year you had written up, the market value above the ledger value? A.—Yes.

Q.—And if you look at the Government return for the year 1904 you would see that the total up to that time that you have written up, the market value was \$33,464.10? A.—Yes.

Q.—Now, in the balance sheet for the year 1905 they are written up \$97,848.03 above the ledger value? A.—Yes.

Q.—So that that would mean they were written up in this year \$64,383.93? A.—Yes, but the part we were

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discussing this morning was a clause in that report.

Q.—Oh no, I was discussing this very asset as written in your statement of assets and liabilities? A.—If you will excuse me I think the discussion began with the clause you read from the report showing how much we had added to the reserve during the year, how much we had added to the surplus during the year, and you asked me first if that addition to the surplus included this \$100,000; however it does not matter.

Q.—I will take that just as you say, and you said you had to provide for the policyholders' future claims and \$135,043.52 has been added to the surplus? A.—Yes, that is speaking of the way the income was disposed of.

Q.—In the evidence when you were examined I think by my learned friend Mr. Tilley, in discussing the formation of the Prudential company you in effect stated that the company had been formed by the directors of the Manufacturers' with some others in order to take over certain unauthorized securities, is not that right? A.—At the request of the Superintendent of Insurance.

Q.—That was as you say at the request of the Superintendent of Insurance? A.—Yes.

Q.—And that was undoubtedly the object for which it was formed? A.—Decidedly.

Q.—The directors being personally liable, or assuming that they were personally liable for any loss that might arise by reason of these unauthorized securities? A.—Yes.

Q.—And the supposition was that they would take those unauthorized securities off your hands and pay you what they had cost you? A.—Yes.

Q.—Neither more nor less, is that right? A.—Yes.

Q.—And you handed those unauthorized securities over to the Prudential? A.—Yes.

Q.—Will you tell me why you gave them anything more? A.—Why we gave them the Electrical Development and the bonus stocks in exchange for some of their stocks.

Q.—Oh no, why did you give the Prudential for taking over these unauthorized securities which the directors were personally liable for any loss upon, why did you give them any bonus stocks not connected in any way with those particular securities? A.—It was a pretty heavy loss for the directors to assume at the time.

Q.—Quite so, that is to say— A.—

That securities that although technically did not come within our power did come within the power of other companies, our competitors, and we submitted the whole matter to the Superintendent of Insurance just exactly what we were doing, what our intention was with regard to these other stocks in exchanging them for \$10,000 of the Prudential stock, and we thought on the whole the settlement for the Manufacturers' Life was a very fair one, in fact he expressed that opinion in Ottawa before the Commission, if I remember right afterwards.

Q.—You, the Manufacturers, said in effect to the directors we had made unauthorized securities, although you must make any loss on these securities which have now dropped in market value we will help you out of our assets to make up a portion of that loss, that is the effect of it? A.—No.

Q.—Although these stocks had no market value at the time could not place any value on it, and could not be sure it would ever have any great value, still there was a chance that it would become valuable; on the other hand there was a chance that the Prudential stock would become valuable, and we considered the exchange a very fair one.

Q.—The Manufacturers had no reason to take any stock in the Prudential, had it not been for the fact that there had been these unauthorized securities, the Prudential would not have been got up except for that reason? A.—No.

Q.—So that the only object of getting up the Prudential was to enable the directors collectively instead of individually, by means of a company or corporation to saddle a loss for which they were individually liable and liquidate it in as advantageous a way possible, I mean not forced at the moment? A.—Some of the directors contested that point, they did not believe they were individually liable.

Q.—But they acted upon the assumption at all events that they were liable? A.—Yes.

Q.—And then whether of greater or less value you gave them something more than these securities which they were taking over—you gave them some of the other assets that belonged to the Manufacturers? A.—We did not give them away, we exchanged them for \$10,000 stock in the Prudential.

Q.—Which you were not bound to take at all? A.—Yes.

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Q.—You simply handed those securities over to the directors and said, "Give us a cheque or the cash for the amount we paid for them, because we were not authorized to take them"—that was the position upon which they acted? A.—Yes, except some of them maintained and still maintain that they were not legally responsible for that, but to make a peaceable settlement they agreed to do it without trouble on these conditions.

Q.—Do you know about what amount of realization there was eventually from these additional securities? A.—No, I do not.

Q.—But you do know they were selling about 60 per cent.? A.—Yes.

Q.—And how much, round figures, did you hand over of these bonus stocks? A.—Par value \$80,000.

Q.—So that \$48,000 or \$50,000 would be realized from them if they were sold at 60 per cent.? A.—Yes.

Q.—And the directors who had gone into the Prudential would be benefited to that extent in regard to the loss they might have to sustain upon the securities? A.—They were if they sold at that price ultimately.

MR. McLAUGHLIN: That matter must be taken at the time it was finished? A.—At the time I would say \$10 a share was quite a high valuation for that stock; that is really what applies, the value at the time.

Q.—That is a matter of argument purely afterwards; at all events whatever those stocks were worth they were handed over in that way you have spoken of? A.—Yes.

Q.—And you did not actually treat the directors as a matter of fact as responsible for every dollar of the unauthorized securities? A.—We considered there was a very great doubt about their legal liability in the matter if it had come into the Courts and be contested, and the Manufacturers' Life might have lost the whole sum if they had not paid a peaceable settlement with the directors.

Q.—The directors did not assume the entire loss as you say without getting something to help them to make up? A.—No, I did not say that.

Q.—Did the directors assume the entire loss? A.—Yes.

Q.—Without getting anything more than the securities? A.—Without getting anything more than the securities, we exchanged the securities for \$10,000 of Prudential stock.

Q.—You have told me you were not bound to take that stock? A.—No, we were not bound.

Q.—What did you get back for your \$10,000 worth of stock? A.—We got 5 per cent. dividends on it, and at the end of the time when the company was wound up we got over \$11,000 in cash for stock which at the time it was transferred was probably worth \$8,000 as an outside figure.

Q.—So that you got \$11,000? A.—Yes.

Q.—And you do not know whether the directors got \$48,000 or \$50,000 for the stock which you transferred to them in exchange for that stock? A.—No, I do not, it might have been \$30,000, it might have been any sum as far as I know now.

Q.—You do not know? A.—No.

Q.—Have you got the books of the Prudential here which would show?

MR. SHEPLEY: We are going to take that up.

MR. HELLMUTH: Very well; will you tell me whether it was correct to say that the Canadian Securities Company was also a Company formed for the purpose of assisting or aiding the Manufacturers'? A.—Yes.

Q.—And that was formed before the Prudential? A.—Yes.

Q.—How long before? A.—The charter has been put in here as an exhibit.

MR. SHEPLEY: We have only this morning been furnished the information in regard to that matter, and we are going into it. In these matters we are making as diligent progress as we can. There are a good many branches of the inquiry we are proceeding on simultaneously. The Canadian Securities information we have only been furnished this morning, and we are proceeding to digest it.

MR. HELLMUTH: I do not want to take up a matter that my learned friend is going to take up until my learned friend has got through, and then I can follow that matter, if it is necessary to pursue it further.

JUDGE MacTAVISH: Yes.

MR. HELLMUTH: Did I correctly gather that when Messrs. Mackenzie & Mann bought this large block of stock of the Manufacturers' that they borrowed a portion of the money to pay for it from the company? A.—They borrowed the money at that time.

Q.—From the company? A.—Yes.

Q.—That is the Manufacturers' own money was loaned upon their own stock for the purchase? A.—Upon In-

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verness Railway bond with the Manufacturers' stock as collateral security.

Q.—Inverness Railway bonds being also an unauthorized security? A.—Yes.

Q.—Was an arrangement agreed upon prior to the purchase? A.—The loan?

Q.—Yes? A.—No.

Q.—Were you surprised when they wanted to borrow upon it? A.—I could not say I was surprised.

Q.—Had anything been said as to how they would take up and pay for this large block of stock? A.—No.

Q.—That was all in the air until the actual time came for payment? A.—I understood they would give their cheque for it.

Q.—And when the time came for the cheque you found they wanted to borrow? A.—They had given their cheque for \$60,000 on account of it, some months previously.

Q.—Yes, but the balance? A.—The balance remained as a loan in the Central Canada.

Q.—I understood you to say this morning to my learned friend, Mr. Shepley, that you were personally against the system of rebates? A.—Yes.

Q.—You do not approve of it? A.—No.

Q.—Has that been your attitude for any considerable length of time? A.—Yes, always been my attitude.

Q.—And have you personally ever granted rebates? A.—As Manager of the Manufacturers' Life?

Q.—Yes? A.—I do not think I have.

Q.—Will you think again? A.—I cannot remember of any instance.

Q.—Of course it would be a matter you would not possibly forget because it would be contrary to your whole line of thought and policy, would it not? A.—I cannot remember of any instance where I have given a rebate. The Secretary just informed me during the noon hour that we have not given a rebate for about four or five years at least, as far as the records of the company showed.

Q.—I am not exactly asking what we, the company, have done; I am asking whether Mr. Junkin personally—of course I may be misinformed—has granted any rebates? A.—I cannot remember of any.

Q.—Do you remember Mr. MacIntosh? A.—No, I do not remember the name.

Q.—You know the firm of MacIn-

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tosh ? Company, grain merchants? A.—No, I do not know the gentleman personally at all. I know there is such a firm in the city.

Q.—Will you say you did not personally grant Mr. MacIntosh a rebate? A.—I do not think I ever saw the man in my life.

Q.—Will you say now under oath you did not personally grant Mr. MacIntosh a rebate? A.—I do not see how I could grant it personally if I have never seen the man.

Q.—Will you swear you have never seen him? A.—No, I won't swear. I have no recollection at all of ever seeing the man.

Q.—Is that as far as you will go, that you have no recollection of ever seeing him, you have no recollection of granting him a rebate? A.—Yes; you cannot expect me to remember every transaction of a forty-five million dollar business.

Q.—No, but if any one should ask me if I had ever stolen a dollar I should say so, and if you have never granted a rebate I should think you could tell whether you have ever granted a rebate? A.—I have told you I am in doubt. I cannot remember ever granting a rebate.

Q.—Will that apply to other cases? A.—Yes, certainly; it may apply to any case; I simply say I do not remember granting rebates since I became manager of the Manufacturers' Life.

Q.—In the contracts that are made with agents, do you approve of paying commissions to agents who merely obtain promissory notes for the premiums? A.—Our practice is to pay after the note is paid in cash.

Q.—Do you approve of the principle of paying agents on obtaining the notes before the notes are paid? A.—Not generally.

Q.—Do you in particular cases? A.—Yes.

Q.—Does that mean particular instances of policies secured or particular agents? A.—Both, there might be a particular policy where I would consider the note just as good as cash.

Q.—And there might be particular agents— A.—Who required to be assisted by the company, who might be doing all their business over two or three months in a district where it would be impossible to get cash, and they would have to take notes for premiums, and we could not expect that man unless he was a capitalist to support himself during the time, there-

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fore we would have to advance part of a commission under the note system.

Q.—Would you go as high as paying a commission or entering into contracts to pay commissions of 60 per cent. of the premium on the obtaining of a note? A.—Yes, in certain cases.

Q.—And a further 15 per cent. when the note was paid? A.—If we had a lien on the agents' renewals we might go as high as that; that additional 15 per cent. would be practically buying out his renewals, it would be a lien on them at any rate. We would have the opportunity of indemnifying ourselves from the renewals in that case.

Q.—Then if the notes were not paid the company would be out some? A.—No, not necessarily he would have to refund the money out of some other —

Q.—Not necessarily, but quite possible, is it not so? A.—It would be possible if the company had not a proper bond from the agent.

Q.—And it is a fact, is it not, that all insurance agents cannot pay their liabilities to the company when they come due? A.—Some of them fail like other men.

Q.—Quite a fair proportion? A.—Yes.

Q.—Is it not a sort of evil that some of these agents—I am not saying the Manufacturers' specially—some of these agents write policies, get notes, they are not paid, and they re-write those policies in other companies—is not there a term applied to that class of agents, rounder or something like that? A.—The rounder is the man that goes from one company to another getting salary for a few weeks, as long as the company are willing to be bled by him, and when the company finds out he is no good he goes to some other company, that is what is understood by rounder.

Q.—But the principle of paying a commission on the obtaining of a note is liable to encourage that rather than discourage the rounder? A.—Yes; you have to be very careful about your man, who you are dealing with.

Q.—By the way I suppose in your experience touching on that you would know that the great proportion—I am not asking for any specific percentage, the great proportion of policies lapse with not more than two years premium paid, they do not run into the third? A.—The largest percentage is perhaps after the first year, after paying one premium.

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Q.—But a very considerable proportion of a company's business is only on its book for less than the third year's premium? A.—Yes, that is quite true unfortunately.

Q.—And the procuring of the business is often in excess by way of costs of the first year premium at all events? A.—Sometimes.

Q.—So that there is not certainly any profit to the insured who drops his policy after two years? A.—No.

Q.—He gets nothing, he has lost his money, if he did pay two years? A.—Yes, if he drops before the third payment.

Q.—And the company practically makes nothing out of it either? A.—They make nothing if he drops at the end of the first year; they might make a very fair margin if he drops after paying the second premium, particularly on endowments, they would make on endowments.

Q.—But not on the straight life? A.—On the ordinary life they would make very little.

Q.—I suppose your actuary will be able to present—I understand my learned friend Mr. Shepley is going on with that—will be the person to tell us what the proportion is in your company of these lapses? A.—Yes.

Q.—You have not got those figures? A.—No.

Q.—Are you the President of the Managers' Association? A.—No.

Q.—But you are a member of it? A.—Yes.

Q.—And I understand, perhaps this is doing the Managers' Association an injustice, that their explanation of the expense generally and of the Canadian Companies is the keen competition that they are forced into with the American Companies and foreign companies to obtain business? A.—I cannot speak for the Association, but I can say this, that there is a general feeling among the Managers of Canadian Companies that the business has been forced up year after year by the competition of the American Companies.

Q.—That is the expense has? A.—Yes.

Q.—Have you ever studied that question at all of the expense? A.—Yes, I have given a good deal of consideration to it.

Q.—Has it ever struck you as somewhat remarkable that the American Companies who are forcing up this expense manage to do their business at a less ratio of expense than the Can-

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adian Companies? A.—I do not think they do.

Q.—Have you really looked at it? A.—Yes, I have looked at it very carefully, that is my candid opinion, that the expense of the American Company is very much more than the expense of the Canadian Company taking into consideration volume of new business that they do as compared with their old business.

Q.—I am asking whether the ratio of expense to premium income of Canadian Companies is not higher than the ratio of expense of the American Companies? A.—That does not mean anything.

Q.—I have asked that question? A.—I do not know, I did not figure it on that basis at all.

Q.—Have you ever looked at that? A.—I did about five or six years ago, and I found that the American Companies, it may be more than that, 7 or 8 years ago, the expense ratio of American Companies on the average was higher than Canadian Companies, that is leaving out Canadian Companies just starting business.

Q.—I am taking the whole? A.—Take it that way, at the time I made out those figures some years ago I prepared a careful statement of it, the American Companies were higher than the Canadian Companies even on your plan. There were some old companies after fifty years had an expense ratio of over 40 per cent., and you could not find an example of that kind in the Canadian Companies.

Q.—You have not brought your calculations up to modern times? A.—I have not been paying much attention to that question lately; that is going too far into the affairs of other companies; it takes all my time to devote myself to the Manufacturers' Life.

Q.—Would you be surprised to learn that in the last five years the ratio of expense in the American Companies has been decreasing and the ratio of expense in the Canadian Companies has been increasing? A.—That would not be at all surprising, because we have very many pretty young Canadian Companies that are only starting business and they must pay for establishing their business.

Q.—Would you be surprised that companies such as the company you represent are over in the ratio of expense, the average of the American Companies? A.—If it is figured in the right way I do not think it would be.

Q.—I am saying the ratio of expense

to premium income? A.—I do not think that shows anything. I will try and give an example. Suppose a company has been doing business for only a year, and the whole of its business for the year is a million of new business with an average premium of \$30 per thousand, your premium income would be \$30,000. The expense of that company will be certainly over \$30,000 for that year, the expense of establishing agencies and that kind of thing, that is its expense ratio will be 100 per cent. Take that same company the second year, supposing it does another million dollars of dollars of business, and that it keeps all its old business, even if it is fortunate enough to keep its old business in force, its premium income that year will be \$60,000. We will suppose the expense was just the same as it was the first year for securing new business, that is it costs them 100 per cent., \$30,000, and its expense of maintaining the old business is ten per cent, that is another \$3,000, that is \$33,000, and therefore its expense also the second year will be in the ratio of \$33,000 to \$60,000, which is less than 60 per cent., and so on.

Q.—And it has improved its position? A.—Yes.

Q.—To its premium income? A.—Because it is getting older.

Q.—Then of course the older a company gets the lower its ratio of expense ought to be to its premium income? A.—That does not necessarily follow.

Q.—Why not? A.—I will try and illustrate that again. We will suppose a company started business ten years ago, and ran along for ten years, and did only \$100,000 of business each year—

Q.—You are taking a special case? A.—I cannot answer this question without taking an individual case; I must be allowed to answer the questions in my own way.

Q.—A company has twenty millions of insurance in 1900, and it has run up to 30 millions of insurance in 1906, should it have increased its ratio of expense to premium income? A.—I cannot answer that question without answering the first, in fairness to myself or in fairness to the life insurance business.

Q.—And if you found that all the Canadian Companies had been, as they grew older, increasing their ratio of expense to premium income would not that tell anything to you? A.—No, because there are new companies start-

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ing all the time, and it depends largely upon the number of new companies that are starting.

Q.—If you find that an old company such as the Manufacturers'—I do not say it is so—has been increasing its premium income year by year instead of decreasing it as it grew older it would tell no tale to you—

MR. SHEPLEY: You do not mean premium income?

MR. HELLMUTH: I mean ratio of expense to premium income. A.—It would tell no tale whatever, it would mean absolutely nothing.

Q.—You spoke this morning of business done over many quarters of the globe by your company, and that you had different rates, the home rate, the sub-tropical rate, and the tropical rate? A.—Yes.

Q.—Have you different systems for the insurance reserve upon those policies? A.—Our actuary will be able to explain that much better than I could.

Q.—You would know whether you have that or not, generally? A.—Yes, we have.

Q.—You have different systems? A.—Yes.

Q.—So that the extra premium obtained for the tropical or sub-tropical policies is partially applied to a larger insurance reserve? A.—I could not answer that question, I do not know that it might work out just that way; I know it requires a heavier premium, but I do not know how much of that premium is used up in the meantime for mortality.

Q.—That is to say all your policies all over the world are not on the same insurance reserve, they are not on $4\frac{1}{2}$ per cent. or $3\frac{1}{2}$ per cent.? A.—That would not necessarily mean they were not on the same reserve, they might be on the $3\frac{1}{2}$ basis and still not be on the same reserve.

Q.—All your policies before January 1st, 1900, are on the H.M. tables at $4\frac{1}{2}$? A.—I think that is correct.

Q.—Your policies since January 1st, 1900, are on the $3\frac{1}{2}$? A.—So far as the returns to the Government is concerned, if it states so in the blue book that is correct.

Q.—Is there any distinction as to lower or a higher rate of reserve in regard to these tropical and sub-tropical policies? A.—Yes, they are based on a different table entirely.

Q.—They are not based on that table? A.—No, not based on the H. M. table.

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MR. HELLMUTH: There are a number of points that Mr. Shepley says he has not closed his examination upon, and I do not desire to take them up until he has closed his examination.

JUDGE MACTAVISH: Very well.

MR. SHEPLEY: Before you go I would like you to tell me when you say that in the case of a company standing by itself increasing its business and increasing its age the fact that the ratio of expense to premium income has no significance for you, just what do you mean? A.—I will try and explain that by taking an imaginary company. Supposing a company runs along for say ten years, and they are doing annually we will say an average business of \$500,000 of new business, and at the end of ten years that would mean they had written altogether five millions of business. We will suppose one-half of it has lapsed, that is two and a half millions in force. Then they change their policy and they say we will reach out after more business and fulfil our duties to extend the benefits of insurance to as large a number as possible, and we must do more new business, and in the 11th year they write two and a half millions of new business, as much as they had accumulated for the whole ten years. That company's expenses ratio according to the example given—supposing they are paying 100 per cent. for new business and ten per cent. for renewals, the expense ratio for that year would be probably 60 per cent., although they are a company ten years old.

Q.—What you mean is in the case of the introduction of new business you may swell that expense ratio in the case of an individual company as well as in the case of averaging a lot of companies? A.—Yes, by doing a large new business in one year, it is going to swell your expense ratio for that year.

Q.—Just one other question arising out of that, and I ask you as an insurance man, is there in your view a method, or have you thought it out at all, a method by which new business can be acquired at a smaller ratio of expense? A.—Yes.

Q.—Is it a feasible method? A.—I think so.

Q.—Tell us what it is? A.—I think if we had a very stringent anti-rebate law passed and the proper machinery provided for enforcing it that it would probably reduce the expense of se-

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curing new business, well one-third at any rate.

Q.—Because what? A.—Because the commissions that are paid by the companies now to the agents do not really go into the pockets of the agents, they go to the insurers and the expenses are really only apparent in that way; they really go back to the insured, or some of the insured, which, of course, is very unfair.

Q.—You would say to the extent of rebates you would reduce your premium income instead of increasing your expense? A.—Yes sir, that is the point I mean, that is really the effect it has on the company, although it appears as expense in the statements.

Q.—Do you express it in your opinion that the practice of rebating is a general practice, so general that it affects the conditions under which the agent expects his commission? A.—I do most decidedly.

Q.—I did not gather that from you this morning? A.—I am speaking of life insurance in general amongst all the companies.

Q.—Amongst all the companies? A.—Yes, that is correct; if I conveyed any other impression this morning it was not my intention to do so. Among the life insurance business it is a prevailing evil, and a very general one, and I cannot emphasize that too much on this matter of rebates.

Q.—I asked you this morning in effect, have you set yourself to reduce your own expense ratio by getting rid of the rebate evil? A.—We have; we have been doing our very best so far as the company can individually act in the matter.

Q.—Where have you struck, at the root or at the branch? A.—Both.

Q.—Have you struck at the agent's commission? A.—We have been trying to pare that down from year to year, and I think perhaps we have it down as fine as any other company doing business in Canada.

Q.—That does not help if all the other companies doing business in Canada rebate and you get down so that you are as low as any of them? A.—As low as the lowest, perhaps lower.

Q.—You have not got low enough yet? A.—It is not as far as we would like to go, I assure you that.

MR. SHEPLEY: I think that is all, you understand of course I shall require you again when some of the information that has been delayed has been digested.

MR. McLAUGHLIN: I would like the privilege of asking a few questions on behalf of the company and its shareholders and policyholders whom I represent.

JUDGE MACTAVISH: Could you not suggest to Mr. Shepley the question? It would be more convenient to do it in that way.

MR. McLAUGHLIN: The main examination is over; I think now would be the right time.

MR. SHEPLEY: With respect to all these matters I expressed my view very fully when the Commission first sat, and I have never seen any reason to alter the view which I then urged upon the Commission. I can foresee very great advantages and delay arising out of what is proposed, and I ask my learned friend to put through me any question that he thinks necessary for the purpose of elucidating the matters that have been touched upon.

JUDGE MACTAVISH: Yes.

MR. McLAUGHLIN: The Commission will see I have done everything I could to facilitate the matter; I have not had very much latitude. I want to take up as little time as possible. The examination as it stands at the present time without some explanation, which can only be made if the company has the liberty of examination, is likely to do injury to innocent parties; it creates false impressions, and the right has been granted to Mr. Hellmuth representing so far as this company is concerned I don't know whom, because I represent the policyholders of this company and the shareholders and the whole company, I have appeared on their behalf—the questions I will ask will not be very many and not very long, and I desire to facilitate the work of the Commission and to put the company in a fair light. Timid policyholders have a tendency to get frightened by reports, and exaggerated reports, that go out sometimes through the press, which is a thing that surely the Commission does not desire to have done. I spoke to Mr. Shepley about the privilege we would have for re-examination, and he said that matter was entirely with the Commission.

MR. SHEPLEY: Your Honors will not forget of course that the position I did venture to take, as I thought in the interest of the inquiry, and as conducing to an orderly presentation of the case to the Commission—Your Honors will not forget that be-

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sides counsel for the Dominion Government there are counsel briefed by the Province of Ontario and counsel briefed by the Province of Quebec, and if in the course of the inquiry a witness is to be subjected to four examinations, one at the instance of the counsel charged with the Investigation, and one at the instance of the Province of Ontario, and one at the instance of the Province of Quebec, and one at the instance of the company that is under inquiry, this Investigation is a long way from being completed. I am not at all inclined to grant that any injury has been done. In cases where questions have been put through me, I have tried always so far as I could to put the questions which have been asked in such a way as to bring out anything which would lessen any injurious effect that might be had, or any erroneous impression that might be created. That I am still prepared to do, but I press upon the Commission the impossibility of our proceeding in the way that is proposed, the impracticability of it. There is the precedent of course for the position I take in the case that is very well known, and which has already been referred to.

MR. McLAUGHLIN: What case is that?

MR. SHEPLEY: The case of the inquiry in the State of New York.

MR. McLAUGHLIN: The inquiry in the State of New York was before a Committee of the House, and the Parliamentary rules applied; but this inquiry is before a Commission, and the precedent of all Royal Commissions is that the parties have a right to appear and defend themselves and be represented by counsel. Now, in this case it is the first time I heard Mr. Hellmuth or Mr. LeBeuf would be granted any privilege that the company would not be granted. They are sent here to represent the Province of Ontario. If the Province of Ontario were investigating the Insurance Companies that they have licensed and the Dominion sent counsel here to represent the Dominion, the Province would undoubtedly consider it an interference with provincial rights, an interference in something they had no jurisdiction over whatever. So far as the parties to this inquiry are concerned and counsel for the Province of Ontario and counsel for the Province of Quebec, while I do not wish to interpose or ask any courtesy the Commission saw fit to extend them shall not be extended—I do not interfere with that at all—but I repre-

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sent the Manufacturers' Life Insurance Company, and its policy-holders and shareholders—I represent a definite body, and I not only feel but I know great injustice will be done if we do not have the liberty which I will not trespass upon.

JUDGE McTAVISH: Injustice to whom?

MR. McLAUGHLIN: To the company, its policyholders, and shareholders. Its policyholders will derive a wrong impression; valuable policies may be surrendered by reason of that impression. The public will about many things derive a wrong impression. Has there been, Mr. Chairman, anything said in this Investigation from the beginning that the counsel representing these Provinces would have privileges that the counsel representing the Companies would not have? It was stated, I was not present at the time those remarks Mr. Shepley referred to now were made, but I read the record of it in the printed evidence, and it was stated when the matter arose it would be determined. I want to assist the Investigation so that the truth may be brought out.

JUDGE McTAVISH: That is what we are here for, to elicit such facts as we are directed to inquire into, on which the Commission may make recommendations and with reference to which Parliament may legislate. When the Company is under examination by the counsel for the Crown, and the counsel appointed by the Province of Quebec and the Province of Ontario who represent the policyholders in those Provinces it seems to me that the interests of the policyholders are sufficiently protected and that the line must be drawn there.

MR. McLAUGHLIN: What jurisdiction has the Province of Quebec or the Province of Ontario over policyholders in companies authorized and incorporated and chartered by the Dominion of Canada?

JUDGE McTAVISH: That is another question.

MR. McLAUGHLIN: Are the policyholders to have a representative and the companies not to have one?

JUDGE McTAVISH: We think that the Company should be satisfied if any reasonable question that their counsel may see fit to ask is put through the counsel representing the Crown, especially when the witness is the company itself or its chief officer, making the disclosure on behalf of the company. We would reserve now the question of your

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right, or that of any other counsel for a company, in the event of some witness who might turn out to be antagonistic or adverse to the company being examined and giving evidence which would be injurious to the company, but when we are eliciting facts from the officers of the company I think the company's counsel should put their case in the hands of the counsel for the Crown in so far as they claim the answers to any questions have a tendency to injure the company. We would be very glad to adopt another course if we saw any injury was being done to the company by this procedure; but we must not lose sight of the fact that we are limited, not limited as to time strictly speaking, but I think we must impose a limit. This Investigation is going to last longer than any of us anticipate.

MR. McLAUGHLIN: We want to do everything possible to facilitate.

JUDGE McTAVISH: I am sure your company has.

MR. McLAUGHLIN: Days have been taken up with matters that are made to appear big in the eye of the public; for instance the investments which this company has made in stock, which only amount to 8 per cent. of their total assets, and every one of which at the present time is off their hands, inferences have been cast which I believe to be very injurious to the company which ought to be explained.

JUDGE McTAVISH: Take the instance which you have just mentioned as an example, it is understood now.

MR. McLAUGHLIN: The press have been unable to understand it, and really after all we are being tried by public opinion, especially as we are the first company, we have taken the brunt of the investigating.

MR. SHEPLEY: My learned friend must not lose sight of the fact that throughout the whole of this examination my learned friend was present. My learned friend has been permitted, and I was glad for him from time to time to point out the matters that would explain, and on every occasion—I think my learned friend will bear me out in saying—on every occasion I have adopted the means of bringing out instantly the matter my learned friend wanted brought out.

MR. McLAUGHLIN: I am not here making any complaint as to the conduct of the cause by the learned counsel representing the Dominion of Canada. They are acting within what they believe to be their duty.

JUDGE McTAVISH: It is the opinion of the Commission that if you have any question that you desire to put to the witness it should be asked through counsel for the Crown.

MR. McLAUGHLIN: I shall then have the liberty of preparing a list of questions that Mr. Shepley will ask this witness before this examination is concluded.

JUDGE MacTAVISH: That will be a matter between you and Mr. Shepley.

MR. McLAUGHLIN: I want to know; as I say I am not making complaint against my learned friends who are handling any other side of the case, but it was not understood between myself and Mr. Shepley that I had no privilege of re-examination, because I asked that distinctly, and he said it was for the Commission to decide.

MR. SHEPLEY: My learned friend must have been aware of the position I took when the Commission opened.

MR. McLAUGHLIN: I was not aware, reading the statements in the evidence, and it is the first time it has been ruled that counsel representing the different Provinces should have a right to take part in the examination, and counsel representing the company would not. The ruling that was made before was with reference to all other counsel than counsel representing the Dominion; and is there now a ruling that counsel representing the Provinces—

MR. SHEPLEY: There has been no ruling.

MR. McLAUGHLIN: That counsel representing the Provinces have a greater right than counsel representing the Company?

JUDGE MacTAVISH: It is not a question of degree of right.

MR. McLAUGHLIN: They have been allowed to examine.

JUDGE MacTAVISH: Yes; they are assisting the Investigation in that way. They think they can help the Commission in arriving at a conclusion by eliciting certain facts which appear to be within their knowledge.

MR. McLAUGHLIN: I will hope you will give me credit for being animated by at least as laudible a spirit.

JUDGE MacTAVISH: I am sure of that, I have no doubt of that at all.

MR. McLAUGHLIN: I shall still have the privilege of preparing a number of questions which Mr. Shepley will submit to this witness.

MR. SHEPLEY: Cannot you put them through me just now while Mr. Junkin is here?

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MR. McLAUGHLIN: When you recall him I should like to have them written and put through you?

MR. SHEPLEY: Just state them to me, and I will put them now, always subject to their relevance.

JUDGE MACTAVISH: It is a matter of saving time, so that the proceedings may not be unnecessarily delayed.

—Mr. McLaughlin asks Mr. Shepley to put a question.

MR. SHEPLEY: Is it a lengthy question, because I have prepared myself to go into certain matters with the actuary?

MR. JUNKIN: I would suggest to our counsel—

MR. SHEPLEY: Would you like to confer with your counsel?

—Mr. Junkin and Mr. McLaughlin retired for a few moments.

MR. McLAUGHLIN: You propose to recall Mr. Junkin?

MR. SHEPLEY: Yes.

MR. McLAUGHLIN: If you will allow me when you recall him to give you a few questions it will take less time.

MR. SHEPLEY: Yes, put them in writing.

MR. McLAUGHLIN: Yes.

JUDGE MACTAVISH: You will understand that we have not determined the question of a witness being in the box and appearing to be antagonistic to the company, and having no connection with the company; we still reserve the right to determine in that case whether the counsel for the company should not be entitled to cross-examine that witness and to show that he is actuated by some malice or animosity towards the company.

MR. McLAUGHLIN: I still believe if the counsel for the companies were allowed to ask a few questions, which would be very few, and take up very little time, it would give a fair presentation of the whole matter.

JUDGE MACTAVISH: Perhaps in your case, and your company it might take but a few minutes, but we must make a rule which must be applicable to all.

MR. McLAUGHLIN: In our company we are in the unfortunate position of having to establish the rulings for all others that are to follow us. The companies that follow us will have notice that they have no re-examination, which I had not notice of.

JUDGE MACTAVISH: You may be assured of this, no company will get the benefit of any different rul-

ings from what your company is getting now.

MR. McLAUGHLIN: What I state is that the counsel for the companies who are examined hereafter will have notice they will have no re-examination, and they will guide themselves by that all the way through. I have not had that notice. However the arrangement I have made with Mr. Shepley now will be satisfactory, if he will put the list of questions I will prepare.

JUDGE MACTAVISH: Very well.

PERCY PAPPS, sworn, examined by

MR. SHEPLEY: What is your position in the Manufacturers' Life Insurance Company? A.—I am actuary of the company.

Q.—How long have you occupied that position? A.—Since my connection with the company in September, 1903, practically the first of the month.

Q.—That is less than three years? A.—About two and a half years.

Q.—What is your actuarial education? A.—I was a young lad of about 17 when I first studied actuarial matters in an elementary way; in April, 1893, I went to the Canada Life Assurance Co., and my first work there was in connection with the mortality experience of that company. From that on as I grew older I took more and more part of course in actuarial work, and I have had not only the experience of completing that mortality table under the supervision of the actuary of the company, but I may say I had practically all the detail work after a certain point to do myself. That was my first experience. Then everything in the way of valuation tables, and afterwards in compiling rates, calculating surrender values for policies, and everything of that nature. I was for over ten years with the Canada Life Assurance Company, and at the time of severing my connection with them I was assistant actuary. Since going to the Manufacturers' Life I have had the duties of the actuary, that is charge of the actuarial department, and a sort of general supervision such as an actuary would have in a general way over most of the other departments. An actuary. I might say, is almost a sort of general utility man in an insurance company.

Q.—Is an actuary born or made? A.—Neither.

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Q.—It is a science, I suppose? A.—It is.

Q.—It is a science in exactitude? A.—Yes, I might say here that I consider that an actuary must be—and I think Mr. Dawson will bear me out in this—a mathematical man, but a mathematical ability alone won't make an actuary. He may pass all his examinations, and he won't be an actuary. It needs a general knowledge of insurance business, which you can only get by practical work.

Q.—Have you told us all the official positions you have held as an actuary, and what your experience has been? A.—Yes.

Q.—In the course of your working out matters with the Canada Life and matters with the Manufacturers' have you read literature upon the subject? A.—Yes, I may say I have passed three out of the four examinations of the Institute of Actuaries, I have passed all the examinations dealing directly you may say with life insurance business, as we have it in this country, or practically speaking, in England. The fourth examination covers practically law and finance, with a few minor points in regard to insurance.

Q.—You have passed three examinations which cover matters which relate to life insurance? A.—Yes, everything practically with the exception of matters relating to friendly societies and matters with which we have nothing to do in this country.

Q.—Where are the examinations held? A.—The examination papers are sent out from the Institute in London, England, and under seal, and they are now held in Toronto, Montreal, Ottawa, and various other centres throughout the colonies; the papers are sent back to the English authorities for examination.

Q.—Then that is the examination you have passed? A.—Yes. I might add to that I have passed the final examination of the Acturial Society of America.

Q.—Where is that held? A.—The headquarters of the society are in New York, but following the custom of the English Society the papers are sent on under seal to Toronto, and I believe to Montreal.

Q.—And that examination also you have passed? A.—Yes.

Q.—So that you have familiarized yourself so far as was necessary for the passing of these examinations, with the

literature upon the subject? A.—Yes.

Q.—Will you tell us in a concise fashion what your duties are in the Manufacturers' Life as actuary? A.—That is a difficult matter to state concisely, because if there are any difficulties in any other department the actuary is always consulted. In the first place I can say this—

Q.—Perhaps I could get what I want by asking you the question directly; do you value the policies, is that part of your duty? A.—Not individually, I have nothing to do with the actual calculations.

Q.—Does the valuation of policies for reserve purposes fall within your duties? A.—Within my department, yes.

Q.—I could say that was a duty with which you are charged as actuary? A.—Yes.

Q.—I do not mean to say you do the actual work, but that is part of the work of your department, that your department is charged with? A.—Yes.

Q.—Explain what is meant by valuation of policies? A.—I can explain it in this way; when the company issues a policy leaving out of account any leading in the premium for expense and profits, the present value of insurance which the company grants to the life is just equal to the present value of the premiums which the insured contracts to pay, that is at the date of the issue of the contract; at the end of a year from that time the value of the insurance which the company has granted has increased because the life is a year older for one reason, the value of the premium which the insured has guaranteed to pay to the company, the present value, has decreased, for one reason there is one less premium to pay; that means then the liabilities of the company under that particular policy have increased, and the assets have decreased during the year, the difference is technically known as the reserve; it is different from bank reserve, because it is a difference between assets and liability under that policy; it is part of the liability.

Q.—That is the reserve which has to be set apart under the statute, and kept invested by the company at the statutory rate? A.—Yes.

Q.—Before there was a statutory rate it was at such rate as the company in the exercise of its own prudent discretion thought proper? A.—Yes.

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Q.—Is it also your duty to compute premium rates? A.—It would be in any change of premiums, yes.

Q.—Has there been any change of premiums since you went there? A.—There has been no change in the with-profit premiums or participating since my connection with the company. There have been some few changes in regard to the non-participating premiums. I think I can remember them all. In the first place as Mr. Junkin has told you this morning, there were special non-participating rates for total abstainers. I found on getting out a manual for the company that the non-participating rates for ten years and fifteen and twenty year endowments got the same difference as the whole life rate, but in the way of lower loading on account of what is supposed, and what we have found to be, the favorable rate of mortality on account of being a total abstainer, but in my judgment, and knowing that under a ten year endowment there is a constantly decreasing amount at risk, there is certainly a decreasing chance of any saving from mortality. I can explain that if necessary. That being so there was less saving on a ten year endowment than there was on the whole life, and I considered it was fairer to slightly increase the loading on the ten year endowment and made a slightly smaller increase on the fifteen and twenty for total abstainers. That was the first change.

Q.—Was the result to decrease the loading as to the ten year endowment or to increase it? A.—To increase it.

Q.—And as to the whole life? A.—There was no change.

Q.—The next change that was made? A.—That was the change referred to. Mr. Junkin said it was made about three months ago, I think; it was a little longer ago than that, I think it was some time prior to the end of the year, and that was the change, whereby our abstainer's section without-profit rates was discontinued, and our general section rates were slightly changed. I may say they were for some ages increased a few cents, and for some ages decreased which was caused by a change in the mortality table, but they were practically the same rates the Manufacturers' had in use for some years before that, so that we did not consider those rates were really changed.

Q.—The rates as to the abstainers, what about them? A.—The without-

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profit rates were discontinued, about six months ago.

Q.—The result would be, as I understand it, that substantially, although their rate of mortality was more favorable they were levelled up to the general section? A.—Those who took that class of policy.

Q.—That applies to those without profits? A.—Yes.

Q.—No change was made as to those who participates? A.—None whatever.

Q.—Are those the only changes that have been made in the rates? A.—I think I am safe in saying those are the only changes that have been made, the only changes which have been made in the premium rates of the company since—

Q.—Those have been the only changes which have been made in the premium rates of the company since you became actuary; in the actuarial fixing of premium rates will you state to us in outline the elements which are to be taken into consideration? A.—Yes. That will illustrate the point I made a few minutes ago, that the actuary must be more than a mathematician. One of the principal things that will affect setting of the rates for any class of policy by any company to-day is competition, and the thing to do in fixing a set of rates for a new company starting business to-day is to see what other companies are charging, because there is very little use in putting out a set of rates that will not stand competition.

Q.—I want you to begin a little nearer the foundation and give me a little more than that with regard to the principle on which rates are fixed; assume you eliminate the element of competition, what you have to provide for in your premium? A.—We have to provide for first a certain net premium.

Q.—What is a net premium? A.—That is supposed to be the net cost of the insurance which the company grants under that particular form of policy at the proper age, of course.

Q.—The net cost of the insurance on that particular method of insurance at the particular age? A.—Yes.

Q.—When you say net cost again I must ask you to explain that? A.—I mean this, that it provides—take the case of endowment insurance, it provides there two elements, it provides for insurance during the whole term of the endowment, and the principal sum at the end of that time.

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Q.—Take the whole life? A.—Theoretically a whole life is an endowment payable at the eldest age in the table.

Q.—The net premium measures the net cost, and the net cost is what you must collect from the insurer to meet the exigencies of the contract? A.—That is the idea.

Q.—What else enters into the computation? A.—If it is a without-profit-policy the next thing is the question of expenses, and there should be, although this does not really come within the loading, that is a provision for contingencies, that is more generally fixed in deciding on what rate to calculate your premium, because of course if we are earning more than three and a half there is a certain profit in that—the two principal things are the cost of insurance and the expense.

Q.—And when you say expense what do you include in that, do you include the expense of handling and carrying the insurance as well as the expense of obtaining it? A.—It has to cover everything in that respect.

Q.—It has to cover all the expenditure, or it ought theoretically? A.—Yes.

Q.—Theoretically to cover all the expense attributable to that policy during its existence? A.—Yes. Of course I might qualify that slightly to avoid any misunderstanding—take the case of investment expenses, we are supposed to calculate our premiums at a low rate of interest so that there may be a sufficient saving of profit from interest to cover that expense.

Q.—That does not affect the principle as to the two main elements that enter into the question of fixing a rate? A.—No.

Q.—Are you able to say, still persisting in this question about the premium rate, are you able to say anything with respect to the origin of the premium rates which are in vogue in the Manufacturers'? A.—I am able to say something about the with-profit rates, because they are the same rates that are in force in the company I left and in force in fact in the majority of Canada companies.

Q.—Perhaps it would clear the ground a little if I asked you, in the Manufacturers' how does the volume of with-profit compare with the volume of without-profit insurance? A.—I cannot give the exact figures, but the general rule is this, we find a very

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large percentage of the business comes in on with-profit plans.

Q.—When you say a large percentage—? A.—I fancy it will be ninety per cent.

Q.—At all events it is a very largely preponderating percentage? A.—Yes.

Q.—Having said so, much will you tell me what you know about that with-profit premium rate? A.—What will I tell you?

Q.—I had asked you whether you had any knowledge of the origin of the rate you found there when you came? A.—Yes.

Q.—You said you knew in this way that they were the same as the rates you were familiar with in the Canada Life? A.—As I understand it, and I am speaking now partly from hearsay, because that time I was not an actuary of a company.

Q.—You are speaking from hearsay, an expert always does more or less? A.—Some things I have not been speaking from hearsay but from actual knowledge.

Q.—I know? A.—As I understand it was this, at the time of the passing of the Act which stated the companies were to have $3\frac{1}{2}$ per cent. reserve on new business it was considered necessary at that time to increase the premiums, and as I understand it there was a Committee of Actuaries appointed to consider the question, and I understand that the rates which are at present in force were recommended at that time by this Committee of the different actuaries of the different companies.

Q.—Explain the method which was adopted of the apportionment which was made between these various elements in arriving at that premium? A.—As I said when I spoke of the loading of premiums, I do not think that the theoretical part of the loading of these premiums took absolute account of the various different elements such as the question of what rate as business men with actuarial knowledge the actuaries were able to recommend; for example, I can explain to you in this way, the loading on the whole life policy is 20 per cent. of the net premium, and a constant loading of \$3 per thousand.

Q.—Let us get that accurately fixed in my mind; you first arrive at the cost of carrying the insurance, which you call the net premium? A.—Yes.

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Q.—Then you take twenty per cent. of that to be added to it by way of loading for expenses? A.—No, that loading is not wholly for expenses, the loading is for expenses and profit, because I am speaking now of with-profit rates.

Q.—Yes, plus? A.—Plus a constant loading of \$3 per thousand.

Q.—What is that for? A.—The table used to calculate the net rate is what is known as a mixed table, and the opinion in generally held by actuaries that the proper table to use in calculating the net premium is what is known as select table. The reason for putting the 20 per cent. loading and constant \$3, as I understand it, was to bring out the gross premium on a table which was in general use, and well understood, which would approximate closely to a gross premium based on these select tables, which were not as well understood or available for the actuaries.

Q.—It was intended to reach approximately by the use of a well known table the result that would have been arrived at if a less known table had been used? A.—Yes.

Q.—The mixed table as you say, what is it known by? A.—That is the H. M. table.

Q.—That is the well known table, and the less known table is what you call the— A.—It is based on the same data used to compile the H.M. table but it is known as the select table or tables.

Q.—That is the way in which as you understand it the loading was arrived at? A.—Yes.

Q.—Theoretically, Mr. Papps, ought that 20 per cent. plus the \$3 to provide in with profit policy not only for dividends upon the insurance, but also for the expenses incurred in securing and carrying out? A.—It should, theoretically, yes.

Q.—Does it fall within your province to determine surplus from time to time? A.—Yes, that is in the province of the actuary.

Q.—To determine the surplus and to apportion it I suppose? A.—Yes.

Q.—What is the surplus, give us a definition of that in English? A.—The word surplus by itself is usually qualified, that is there is one account in the blue book which is called the surplus to policyholders, and that of course includes paid-up capital; then there is another item which is called divisible surplus in the blue book, and that is the difference between the to-

tal assets and the total liabilities, leaving out the capital stock.

Q.—And for what purposes is that divisible surplus available, what is the destiny of that divisible surplus in the ordinary course of insurance business? A.—Well, if you could ear-mark any particular portion of it it would eventually go in the proper proportions to the policyholders and shareholders.

Q.—That is what it is for, it is an accumulation— Is this a proper definition of it, an accumulation of profits which is available to be distributed among those who are entitled to profits? A.—I think so.—Excuse me, you started a question there. I would not like to be put on record as saying that is what surplus is for, that is the reason for which it was created.

Q.—Make your own statement about that? A.—The reason for that is this, the whole system of granting policyholders' profits has its history away back in the early days of the business, and it really grew out of the fact that some of the companies in the early days used a faulty mortality table which made them have very large profits, and the shareholders of those companies making such big profits voluntarily gave to the policyholders a share. The carrying on of with-profit business is not with the idea of piling up a surplus which may be distributed to allow policyholders to participate in the profits of the company. Do you see the difference?

Q.—I think I do; the idea is that a surplus will be available—I think we have got back to the same point—will be available for the purpose of paying profits to the policyholders? A.—Yes, that is the result rather than the cause of the surplus.

Q.—The cause is what? A.—As I have put it it is impossible to accurately determine the exact cost, because we cannot tell what the interest of mortality rates will be in the future, and we know in granting with profit policies that we charge more than is necessary for the bare cost of the business, and we allow the policyholder to share in that in the results.

Q.—In the results? A.—In the results of the company.

Q.—You have already in the fixing of your premium which the policyholder pays, made a computation which includes something for profit? A.—Yes.

Q.—And you do not of course know whether in the case of any particular

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company you will make a profit or not, that depends on the mortality? A.—Yes, but we expect it will.

Q.—Mortality is a pretty well ascertained thing after all these years of insurance? A.—Well, it is ascertained, but it has been changing, that is it is not a constant thing.

Q.—But in a long number of years a certain average could be deduced as a matter of experience? A.—Yes, with the exception of course of some disasters which might affect the mortality very seriously.

Q.—Then does it fall within your province to deal with surrender values? A.—Yes.

Q.—What do you do with regard to surrender values, what is your duty with respect of that? A.—If a policyholder writes in and asks for the surrender value of his policy it is part of the duties of the Actuarial Department to ascertain what he is entitled to, and if he decides not to go on with it, to have the thing properly put through and the cheque issued.

Q.—I just want to put in a concise form a statement which I understand you have checked over, and then when I have put this in I shall have to ask you some general questions with regard to the two companies, the coalition of which makes the present Manufacturers. This is a paper which is headed "Profit paid policyholder, and dividends paid to stockholders since organization"? A.—Yes.

Q.—You have checked this and it is accurate? A.—As far as I know these figures are correct.

Q.—And these figures are from 1894 down to 1904 inclusive? A.—Yes.

Q.—The amalgamation took place when? A.—I cannot answer exactly, because I was not actuary of the company at the time, but it was some time in the year 1901.

Q.—Under the first pair of columns, profits to policyholders and dividends to stockholders, under the heading 'Manufacturers', are ranged the figures both before and since amalgamation? A.—Yes.

Q.—Under the other two columns headed 'Temperance & General' you have profits to policyholders and dividends to stockholders down to the date of the amalgamation? A.—Yes.

Q.—In 1894 policyholders in the Manufacturers received \$198 in profits, and stockholders did not receive anything that year? A.—No, nor did they since organization.

Q.—In 1895 policyholders received \$625 and stockholders \$5,092.-

80. In 1896 policyholders \$778, stockholders \$10,185.60. In 1897 policyholders received \$8,864, and stockholders \$10,185.60. In 1898, policyholders \$2,980, stockholders \$10,185.60. In 1899 policyholders \$4,125, stockholders \$10,185.60. In 1900 policyholders \$11,573, and stockholders \$10,267.70. In 1901 policyholders \$10,190, stockholders \$24,570.51. In 1902 policyholders \$28,850, stockholders, \$24,000. In 1903 policyholders \$29,725, stockholders \$24,000. In 1904 policyholders \$28,286, stockholders \$24,000; or a total in those eleven years of \$126,194 to policyholders, and \$152,673.41 to stockholders. Then during the continuance of the Temperance and General Company before amalgamation the figures are as follows: Nothing for 1894 either way. In 1895 policyholders \$1,218, stockholders \$3,000. In 1896 \$1,660, stockholders \$3,000. In 1897 policyholders \$4,865, stockholders \$3,000. In 1898 policyholders \$1,816, stockholders \$3,000. In 1899 policyholders \$1,967, stockholders \$3,000. In 1900 policyholders \$1,624, stockholders \$6,000. Then came the amalgamation? A.—Yes.

Q.—If those figures are added to the figures taken from the Manufacturers you get a total paid to policyholders out of both societies before and since amalgamation of \$139,344, and a total paid to stockholders of \$173,673.41? A.—There is just one point, you have here profits to policyholders \$139,000; those are not the total payments to policyholders, they do not include anything in the way of interest, or very little, and in the dividends of shareholders every dollar their stock has earned—at least this \$173,000 is made up entirely if not altogether of interest on the stock capital itself.

Q.—You cannot pay interest out of capital? A.—No, but the capital earns interest.

Q.—That includes all that has been paid to the stockholders by way of dividend, bonus or otherwise? A.—Yes.

Q.—And the other side, policyholders, includes you say not all that they have been paid? A.—No, because there have been surrender values and death claims and all sorts of claims paid policyholders.

Q.—No, I am talking by way of profits? A.—If you take that by way of profits I say the word dividend to stockholders should read interest and dividend to stockholders, otherwise there is a play on the word dividend.

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Q.—That is what the stockholders have received? A.—Yes.

Q.—And this is what policyholders have received by way of profits? A.—By way of profits only.

Q.—You have added— A.—I did not make this statement up, although I checked the figures.

Q.—I do not intend to attribute this statement to you, but just your checking of it. Surplus on hand January 1st, 1905, is added, \$471,869.12, and then follows this statement, "Gross profits earned since organization the sum total of the three, \$784,886.53." Then follows this statement, and this of course is accurate enough; "the dividends paid to stockholders are over 22 1/10 per cent. of the entire profits earned for all purposes since organization by both companies? A.—Yes.

Q.—This red ink at the bottom is your comment upon it? A.—Yes. I supposed with these changes the thing would have been re-written or I would have put that on a separate sheet of paper.

Statement of amounts paid to policyholders and stockholders referred to by Mr. Shepley filed as Exhibit 68.

Q.—Does your experience since you have been with the Manufacturers' enable you to give me in any precise form what volume of insurance you had from each of the amalgamating companies on foot when you went there? A.—No, I have no figures here to give that. I might obtain that. I would like to ask whether that statement is to be allowed to go without further comment, because if so it does not seem to me to set the company out in a fair light at all, and if you are going to go away from that I want to raise the point now. The statement as it stands our worst competitor would not give that out.

MR. McLAUGHLIN: I think it would be better if the statement was explained now.

MR. SHEPLEY: The witness has told us just what it is? A.—I do not think I have. I have simply said the figures are correct, but I have not explained very much in regard to it.

Q.—It is what it purports to be? A.—It is one of those half-truths that are most dangerous things.

JUDGE MACTAVISH: I think he had better give us the explanation now? A.—What I would like to say is this that the shareholders of both companies paid in a certain amount at the start and amounts after that; those amounts were left by the share-

holders with the company, they were invested and were earning interest. This statement here shows every dollar which the shareholders have got, which of course includes the interest earned by their capital. You want to take into account the interest the policyholders have earned. I claim the only way of making a comparison between dividends—I might even use the word profits both to shareholders and policyholders, you should eliminate the interest earned by the shareholders' paid-up capital. I am not a shareholder nor a policyholders in the Manufacturers' Life, and I am speaking purely as a professional man, and that statement is not a fair statement to the company, and I do not think that it should be allowed to pass without some explanation of that kind.

Q.—Every word of that except your own affirmation of your disinterestedness you have stated to me before? A.—Yes, but I do not think it was understood by the Court, I do not think my words were loud enough to be heard.

MR. SHEPLEY: The charter of the company may be presumed to be in.

MR. McLAUGHLIN: I want the evidence put, so far as possible, that neither Court nor press will misunderstand it.

MR. SHEPLEY: I am anxious that the Court shall make no mistakes and I will try to see that they do not; I do not think it is at all likely that any statement the witness has made has been at all misunderstood by the members of the Commission.

JUDGE MACTAVISH: Oh no.

WITNESS: You understand, sir, that one of the principal assets of a company is its standing in public opinion and I am particularly anxious that the remarks I make shall not be misunderstood by the public press because they have even a wider influence as moulders of public opinion, than the Commission.

MR. SHEPLEY: I do not think there is any desire on the part of the press to misrepresent.

A.—I do not think there is any desire on the part of the press to misrepresent, but my evidence must necessarily be technical and I cannot say nor can anyone for a minute that a newspapers reporter can thoroughly understand actuarial matters.

Q.—I am afraid we cannot stop the inquiry for that reason? A.—No sir,

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I only want to make my explanation as clearly as possible.

MR. McLAUGHLIN: I hope that hereafter there will be no reflection cast that we are trying to baulk the inquiry.

MR. SHEPLEY: I have not said anything of the kind.

Q.—What has been your experience as the years have gone by in respect of comparing actual results as to profits with estimated results? A.—My experience has been almost universal in every company, I cannot recall a case now where estimates made a number of years ago have been realized.

Q.—Then I understand you to say that universally estimates with respect to profits have not been realized? A.—That is my opinion.

Q.—When you come to work them out in practice? A.—In view of the actual experience, yes.

Q.—Can you assign a reason or perhaps more than one reason for that? A.—Yes, I can. In the first place there is the question of interest. It is of course understood that interest has fallen considerably, but a concrete example or a suppositious case, rather can show the effect of interest where, for example, if you have a fund say of \$1,000 and the arrangement is that you shall have the interest which that fund earns in excess of say 4 per cent. If the fund earns 5 per cent. you are in receipt of say \$1,000 a year. I may have a fund of \$20,000 invested at 5 per cent. and I am in receipt of \$1,000 a year and we are on a par. Now if the actual interest falls to 4 per cent., you get the margin over 4, that is you don't get anything and I have a margin of income, I still have \$800 a year left. That illustrates the fact that it is not simply the fall in the rate of interest as generally understood but it is the fact that the whole of the fall in the interest comes against the interest which we may say is available to earn profits.

Q.—That is very clearly put and I quite appreciate that that is one reason then for the fact which you have found to be universal, that results are not as good as expectations? A.—Yes.

Q.—Before telling me the other, I perhaps should have asked you this, does that failure to realize anticipations extend to dividends as well as to the profits of policyholders? A.—Do you mean to say dividends to shareholders?

Q.—Yes? A.—It must necessarily affect that, because it affects the earnings of the shareholders fund.

Q.—So that both as to the earning power of the capital stock and as to the profit producing for the benefit of policyholders, both those are adversely affected by a fall in the rate of interest? A.—Yes. I might add, in order to be complete, that inasmuch as the shareholders have the right in most cases to a certain proportion of the profits earned for policyholders, any loss or decrease in profits paid to shareholders naturally affects the shareholders rights. Where that is the charter.

Q.—Where that is part of the constitution of the company? A.—Yes.

Q.—Then you were going to tell me another reason for this state of things? A.—This refers perhaps almost entirely to what is known as the Tontine or deferred dividend policy. That is a usually understood term I think. That is the dividends are accumulated for a term of years. In estimating what those dividends were going to be, the actuaries or agency instructors, whatever they were called at that time, whoever worked out the estimates probably took into account and calculated on a certain rate of lapses or surrenders. Now the general experience of the Tontine business has been, no matter how much has been said against it, that it has served to keep the business in force. That is after a policy has been in force for a couple of years there are practically very few lapses or surrenders.

Q.—That is, it is a method of insurance, if I understand you, which secures the loyalty of the policyholder himself? A.—Yes.

Q.—It is for his advantage to hold on? A.—Yes. Now that of course has decreased the profit coming to the persistent policyholders from those who they estimated would surrender. That of course has decreased the profits of those who survived to the end of the term.

Q.—Because they all survived or more of them survived? A.—More of them survived, so that although it is an evil in the way of reduction of profits, it is a benefit to the business through the insurance being kept in force.

Q.—In other words, the expectation with respect to surrenders has not been realized, either? A.—No. I am speaking now, of course, not from personal

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experience, because I never estimated any Tontine profits. I was too young in those days to do so.

Q.—At all events that is what you say with regard to that, and that seems reasonable and proper enough. Then what other cause is there? A.—The only other cause. I think, although I am unable to say what has been the experience in the way of mortality, I think the mortality has probably been as great as was anticipated, the only other possible cause of decrease in profits is in the question of expense.

Q.—And that is a very serious element, is it not? A.—I cannot say. I am talking now from my own general impressions and not, as I tell you, from experience, but I don't think that the question of expense has played anything like as important a part in the decrease of profits as has generally been thought by the general public. I don't think that is so.

Q.—Mr. Papps, you and I must both try to keep the general public out of our minds while carrying on this conversation. I want your views; I do not want you comparing your views to views that are in the air. I want to get your views just as you have them. Now is the increased expense an important element? A.—I am really unable quite to answer that question, for this reason, I don't think that there has been very much increase in expense in looking after the old business. I think the increase in expense is in the new business.

Q.—I have not divided that yet. There has been an increase in expense and I was going to put that to you next, whether that increase is not almost entirely or very substantially in respect of new business? A.—Yes, well you see the point I wish to make is this, that if the increase in the expense has been solely, to put it for the moment on the new business, that would not affect the old policy.

Q.—Wouldn't it? I think I will show you in a little while that it affects them very seriously. Let me put a leading question to you and perhaps it will be better if I put it more in detail. If it costs you \$150 to get a new first premium on a new insurance, amounting to \$100, there is a loss of \$50 at once? A.—Yes.

Q.—Where do you get that, out of what do you pay it? A.—It comes out of what may be called the general working capital of the company.

Q.—Where does it come from as a matter of actuarial knowledge? Doesn't

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it come from profits that would otherwise be available—is it not taken from profits which would otherwise be at all events partially payable to old policyholders? A.—Only partly. Only temporarily I should say.

Q.—But immediately and at the moment and for the year it comes out of that? A.—Well, it is not ear-marked as such. It comes out of the general surplus. You could not say it comes out of part of the surplus of the old policies and part of what stands against the shareholders' fund. There is no straight allocation of where that cost comes.

Q.—If before that is recouped to the fund a man dies and his policy becomes entitled to profits, it does not get any of his share of that, does it? A.—If he dies under a deferred dividend policy, he won't be entitled to any profits.

Q.—You know what I mean? A.—I must confess I do not, sir.

Q.—If you take this out only temporarily, while it is away it is not available to be paid as profits to old policyholders, and if a policy becomes a claim there can be no participation in that? A.—Under the deferred dividend system if a policy becomes a claim during that time he gets no profits. That is a part of the deferred dividend system.

Q.—I suppose it becomes a claim and the deferred period has arrived? A.—Then if the accounts are properly kept, the maturing policy should not be charged with any of the cost of obtaining new business. I think that is the general impression of actuaries, so that the old policy will get actually what it is entitled to irrespective of the cost of acquiring new business.

Q.—Do you say that is so as a matter of practice among Insurance Companies? A.—I am unable to say as a matter of practice, because it is a thing an actuary of one company knows very little about in another.

Q.—At the end of each year you declare so much surplus available don't you? A.—Do you mean to say to every policy, allocate a certain amount of surplus?

Q.—No, you declare a certain amount for division? A.—No, it depends on the policies maturing each year.

Q.—Certainly, but at the end of every year you put into your account a gross surplus? A.—Yes, but there is no portion of that year marked for distribution next year.

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Q.—No, no; I won't mislead you at all; at least I will try not to; I am not at all anxious to mislead you. A.—I only want to get what you are driving at that is the point.

Q.—Let us take your surplus here. Surplus at the end of 1905, \$606,912.64? A.—Well now perhaps I had better explain.

Q.—No, just listen to my question. Supposing sometime during this year, 1906, you have expended more to get new business than the new premiums amount to, at the end of 1906 that \$606,000 will be so much less than it otherwise would be, will it not? A.—Well, if there was no increase in the surplus it would naturally, yes.

Q.—I want to deal with just the one element; it would be that much less. And if a man died on the 2nd of January, 1907, he would be settled with upon the basis of that only being available? A.—Don't think I am trying to work at cross purposes with you, but if a man died, unless he happens to die a minute or two after the profits are declared and are due and payable to him, he gets no profits at all, he simply gets the face of his policy.

Q.—I am talking about a man who died at such a time and under such circumstances that he is entitled to profits? A.—Then I say the cost of the new business, in a proper system of accounting, makes no difference whatever.

Q.—Then you would not base what he is entitled to in any degree upon what your balance sheet shows as available surplus? A.—No.

MR. McLAUGHLIN: Ask him how he would base it.

MR. SHEPLEY: That you say is not an element that enters into it at all? A.—Not on the particular figure given there, because I can tell you this.

Q.—I only use this as an illustration; if we are at cross purposes I want to get rid of that; I do not want to be at cross purposes with you at all. Is it true that temporarily at all events, and until it is recouped this excess of expenditure over revenue in respect of new insurance depreciates the fund available for profits? A.—Well, I cannot answer that yes or no, because I will have to tell you this, that it does not depreciate the surplus on those policies maturing that year.

Q.—Why? A.—Because it is thrown against, theoretically, actually it is

not thrown against any particular part of it, but theoretically it is thrown against that portion of the surplus belonging to policies whose dividend periods are not up for distribution, are not maturing.

Q.—Then supposing it would not affect the profits of any policy maturing during that year, would it affect the profits of any policy maturing during the following year? A.—Only temporarily, because as those policies came up for distribution their surplus would be released from any claim on account of the cost of the new business.

Q.—Do you mean to say that when a claim comes due according to the terms of the policy and is payable with profits, do you mean to say that you go back over the accounts and readjust the profits for that period so as to exclude the expenses for new insurance? A.—Well, we will have to come to this point.

Q.—Cannot you answer that yes or no? A.—I had nothing to do with the profits in the Manufacturers Life as I can explain if you will let me.

Q.—Cannot you answer that question? A.—Put it again if you please, or if you give me the notes.

Q.—(The Reporter reads the question.)

A.—I say that the accounts will have been made up from the start of that policy and there will be no occasion to go back over it and that the fund at the credit of that policy will be charged with a share only of the old business expenses of that year and not of the new. At the first year when that policy was issued it was charged with its share of the expenses for that year.

Q.—You are confining yourself to a policy falling due within the very year. You do not of course mean to say that an overdraft such as I have spoken of, \$150 to \$100— A.—You are asking me what we would do with a policy maturing in that year. You asked me if I could go back over that period and adjust the account.

Q.—(At Mr. Shepley's request the Reporter reads the same question.) I am not asking you about a policy maturing that year, but about a policy which matures during the period before recoupment of that overdraft? A.—You asked me in the first part of that question about a policy maturing that year, isn't that the question?

Q.—No. A.—Then I must confess I am unable to understand you sir.

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Q.—That is my misfortune, but I must try to make myself plain, if I have not done so already. You have said that \$150 expended in getting \$100 of premium on a new policy involves a temporary invasion of some other fund? A.—Some surplus fund, yes.

Q.—It must do that, *ex necessitate rei*. Then it will depend on circumstances how long it will be before that will be recouped? A.—Yes, but I think we are—

Q.—Isn't that right, it will depend on circumstances? It may not be recouped for five or six or seven years? A.—I cannot answer you without making an explanation and that is this, where we are at cross purposes is this, I don't intend to say if I did that it was placed against any particular portion of the surplus.

Q.—Nor did I. A.—But only against the surplus as a whole. What I am trying to get at is this, that as the different policies come up to the end of their distribution period and profits are due and payable, those particular policies are not considered to be burdened at all with the extra cost of the new business.

Q.—Of the new business of that particular year? A.—Yes.

Q.—That I am not asking you about, because the year before there was a similar overdraft, I want you to suppose, and the year before that a similar overdraft, and so on, in the year before that a similar overdraft; now comes your distribution period, what do you do with regard to all those? A.—These overdrafts in the previous years have of course been partly recouped by profits since but they are standing in bulk against the total surplus.

Q.—This is a policy which matures and is payable with profits before that has been completely recouped; does it or does it not bear any portion of that burden? A.—When it matures.

Q.—Yes? A.—None whatever.

Q.—Then if you carry on business long enough and your old policyholders all die, what will you pay them out of? A.—If we carry business on long enough and they all die what will we pay them out of?

Q.—Yes? A.—Out of the funds of the company of course.

Q.—Where will you get them if you are always settling with these people excluding moneys that you have paid out and have not got in your pocket? A.—But you don't pay out 150 per cent. of your total premium income.

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Q.—I am assuming that for the purpose of illustration. A.—Oh, I see what you mean, a company only writing business for one year and going out of business at the end of the year?

Q.—No, I don't mean that at all. I know I am not a very good insurance man— A.—I am not a good lawyer.

Q.—But I think I can understand a sum in arithmetic. Supposing to-day your company gets \$100 in premiums and it costs your company \$150 to do it. You have not got \$150 in that to pay it with so you must pay \$50 of that out of some other source and you have told me, if I understand you, that that must come out of surplus? A.—Yes.

Q.—Out of some other surplus? A.—Yes.

Q.—Some other surplus which in some shape or form is available for distribution among the policyholders entitled to it? A.—Distribution at some date. I don't say that yet.

Q.—At some time? A.—Yes that is right.

Q.—Now that \$50 overdraft will not be completely paid back the next year if you write a lot of new insurance at the same ratio of expense will it? A.—Well, I don't understand you sir whether it is one policy or several policies.

Q.—One policy; simplify it all we can. This policy pays \$100; now the next year it will also pay \$100 but it will have to bear its ratio of expense? A.—Yes, which of course will be very much less than \$150.

Q.—What will it be? A.—I cannot answer that off hand, say 10 per cent.

Q.—Is 10 per cent. enough? A.—Yes.

Q.—We will say 10 per cent. A.—It will depend on the plan of course.

Q.—That has realized \$90? A.—Of the \$50?

Q.—\$90 of the \$100? A.—Oh, yes.

Q.—You have only had to expend \$10? A.—Yes.

Q.—Now do you take out of that \$90 theoretically this \$50, pay it back in other words? A.—You see we don't take those items of \$50 out of any particular fund, they simply go to increase the general surplus, neither in theory or in practice, so I cannot tell you that it comes out of that \$90.

Q.—Then we will exclude figures and put a concrete case so that we may get together if we can. Is there a period of time during which the surplus

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—do not think for the moment of the destination of the surplus—is there a period of time during which the surplus has been invaded to the extent of \$50? A.—The general surplus, yes.

Q.—The general surplus has been invaded. I do not know what distinction you are making. Something which is called the surplus has been depleted? A.—Yes.

Q.—How long may that period be, will that depend on circumstances?

A.—That will depend on the plan of insurance and the age, etc.

Q.—That will depend on circumstances? A.—Yes.

Q.—May it last 3 or 4 years? A.—Yes, it may. Excuse me one minute, I don't mean to say that there will be no funds there but it may be 3 or 4 years before it equals the reserve, I understand that is what you mean.

Q.—After laying aside a reserve, doing everything you have to do with your money, you can make good that first year's premium overdraft. Do you follow me so far? A.—Yes, we are together now.

Q.—Then if during that period a policy becomes a claim to be paid with profits, if at any time during that period a policy so becomes a claim, will that policy be paid what it would have received if that deficit did not exist in whole or in part? A.—Yes, because it won't be paid any profits in any event but will be paid simply \$1,000 if that is the face of the policy because there are no profits payable during the first five years.

Q.—Well, you have not answered my question. A.—I am doing the best I can Mr. Shepley.

Q.—I dare say; I am quite willing to assume that it is all my fault. You have policies that are older than five years? A.—Yes, but you spoke of the time, the 3 or 4 years during which there was an overdraft.

Q.—I was not talking about insurance effected during those 3 or 4 years, but old policyholders whose policies became claims payable with profits. Mr. Dawson suggests to me a form of question which, between one actuary and another, may solve the difference between our minds. Will not those who are entitled to these profits receive less than they would have but for that \$50 being taken out? A.—I should say no.

Q.—Then even that does not seem to reach the point.

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MR. McLAUGHLIN: I think if the witness would explain how he would divide the profits, perhaps that would.

MR. SHEPLEY: It is half past four and perhaps I will be able to think out some way by which I can get to the mind of the witness.

(Adjourned to 10.30 a. m., on Thursday, the 3rd day of May, 1906.)

NINETEENTH DAY.

MORNING SESSION.

Toronto, May 3rd, 1906.

Examination of Mr. Papps continued:

MR. SHEPLEY: Q.—We were trying to find out between us when we adjourned last night whether or not policyholders are affected by large first premium costs, by a large ratio of expense in respect to first year's premiums, is it fair to say this that if the policy in respect to which the large ratio of expense has been incurred lapses at the end of the first year, at the end of the second year of insurance, that there is a loss in respect to that policy? A.—On some plans and ages there will be.

Q.—Then if that policy has lapsed there is not any chance of getting it back out of that policy? A.—No.

Q.—That must affect what is available for other people entitled to share in the profits? A.—Yes.

Q.—Let me put it another way to you, assuming that you are computing the profits to which all policies are entitled including the policies in respect to which this large expense ratio has been incurred, will the profits so treated be affected by the large expense ratio? A.—Not all of them, some of them will.

Q.—I pass to another subject, the subject of the alteration in the computation of the reserve; just tell exactly what you understand the change in the law to require of you? A.—As I understand it the law is this, it requires the companies to hold a reserve based on a 3½ per cent rate of interest for all policies issued since first January, 1900.

Q.—That is since the Act came into force? A.—Yes. It further requires that in computing a reserve for a company at the end of the year 1909 the

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reserves to be held for the old policies issued before 1st January, 1900, shall be computed on a 4 per cent. interest basis, and that that same old business at the end of the year 1914 shall be valued on a $3\frac{1}{2}$ per cent. interest.

Q.—May I suggest this modification of your answer and see whether you would agree with that, that by the Act the company is given until the year 1910, or the end of the year 1909, to raise its reserve to the 4 per cent. basis, and is given until 1915 to raise the reserve so as to be upon the $3\frac{1}{2}$ per cent. basis? A.—Yes sir.

Q.—There is no requirement in the statute that you shall wait till the end of these two periods before altering your reserves? A.—No.

Q.—Before asking what your company has done, let me ask you to give a statement of what the different kind of policies are which your company issues? A.—We issue all the regular plans of insurance; I will name as many as I can.

Q.—Just name the principal ones, those that are what you would call standard methods of insurance? A.—The whole life policy, payable by annual payments throughout the whole of life, the same policy payable by a limited number of payments, and endowment insurance policies payable by premiums throughout the term of the endowment, or by a limited number of payments. That will cover the plans generally.

Q.—And in respect of all plans there are participating and non-participating classes? A.—Yes.

Q.—With respect to the reserve is there any difference in the treatment of these different classes of policies? A.—By my own company, I understand you to mean?

Q.—Yes? A.—Yes, to this extent, on our life, limited payment life policies, we guarantee at the end of 20 years a cash value in excess of the $3\frac{1}{2}$ per cent. reserve, it is the 3 per cent. reserve, and for that reason we hold a reserve slightly in excess of the ordinary $3\frac{1}{2}$ per cent. reserve on those policies.

Q.—As high as a 3 per cent. reserve? A.—It is not quite—

Q.—It is between $3\frac{1}{2}$ and 3? A.—Yes, I can explain that fully.

Q.—Finish your other answer, you say it is not quite, because why? A.—Instead of holding at 3 per cent. reserve we consider the difference between 3 and $3\frac{1}{2}$ reserve at the end of the 20 years as a pure endowment

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which the policyholder may claim, and we hold a $3\frac{1}{2}$ per cent. reserve on that pure endowment in addition to the $3\frac{1}{2}$ ordinary reserve, so that the entire reserve is based on $3\frac{1}{2}$ per cent. interest.

Q.—You compute a $3\frac{1}{2}$ per cent. rate of reserve upon the difference between 3 and $3\frac{1}{2}$? A.—Yes.

Q.—That you treat as pure endowment? A.—Yes.

Q.—In respect of all other classes your method of arriving at reserves is the same? A.—On $3\frac{1}{2}$ only.

Q.—That $3\frac{1}{2}$, and there is on allowance for a pure endowment in respect of the others? A.—None whatever.

Q.—What effect, if any, will the alteration in the law with regard to reserves have upon the profits available to policyholders and to shareholders? A.—I will have to take that up first in regard to the policyholders, and it will depend of course on the difference in the plan of distribution of surplus, for example if the policy is a twenty year tontine policy the effect of holding any particular reserve during the 20 years would have no effect on the profits, because the total funds accumulated for the policy during the 20 years depend entirely on the rate of interest, the rate of expense, and rate of mortality; what is not surplus is reserve, and vice versa, to make up the full fund; at the end of the 20 years if the company holds a $3\frac{1}{2}$ per cent. reserve, and presume a policy is to be continued, it can pay a certain amount in profits in cash to the policyholder, hold the $3\frac{1}{2}$ per cent. reserve for the continuance of the policy; if instead of doing that the company hold 3 per cent. reserve it would hold a higher reserve and consequently pay a less cash profit.

Q.—You are illustrating that by the difference between $3\frac{1}{2}$ and 3, the same would apply to any difference in the rate? A.—Yes.

Q.—The difference between $4\frac{1}{2}$ and $3\frac{1}{2}$ would similarly affect the results? A.—Yes.

Q.—With respect to other forms of insurance than the tontine what do you say? A.—If we have two policies each sharing in dividends each five years, one of those policies carried on $4\frac{1}{2}$ per cent. basis and the other on $3\frac{1}{2}$, it would probably be found that the policy with a $4\frac{1}{2}$ per cent. reserve would receive smaller profits at the end of the fifth and at the end of the tenth year than a policy on a $3\frac{1}{2}$, but at the end of the

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15th and 20th years and thereafter the profits on the policy on which a $3\frac{1}{2}$ per cent. reserve was held would probably be greater than on the $4\frac{1}{2}$, that is the difference in the reserve affects the time for distributing the profits.

MR. McLAUGHLIN: I think he means the other way.

MR. SHEPLEY: Q.—What I understand you to say is, see if I have got that correctly, that there is a difference in favor of maintaining the old rate for the first 5 years? A.—Yes.

Q.—That after that the difference is in favor of the altered rate? A.—After the tenth year.

Q.—What between the 5th and 10th? A.—At the end of the 5th and at the end of the 10th the higher profits could be paid where the $4\frac{1}{2}$ reserve was held.

Q.—You are taking distribution periods? A.—Yes.

Q.—In respect to those periods the advantage is with the old rate? A.—Yes.

Q.—That is an alteration in the rate during those periods is to the disadvantage of the policyholder? A.—Temporarily.

Q.—During those periods? A.—Yes.

Q.—After that you say the maintenance of the reserve itself brings about an equilibrium? A.—Yes.

Q.—What has your company done since the Act was passed in respect of business written before the Act came into force in this regard, in regard to the reserve? A.—There has been practically no change in the reserve, there has been a slight change.

Q.—I would like you to tell us what you mean? A.—Policies issued on the tontine plan where their dividend period has matured in the last few years we have given the policyholder the option of continuing his policy leaving the $3\frac{1}{2}$ per cent. reserve with the company, and taking the balance in cash, or taking his total cash value if he wishes to do so, and where the policyholder has elected to leave a $3\frac{1}{2}$ per cent. reserve standing at his credit we have held a $3\frac{1}{2}$ per cent. reserve on those old policies.

Q.—Has there been any substantial amount of insurance that has been treated in that way? A.—No, a small amount only.

Q.—It is only to that extent that you have in respect of the old business, I mean of course the business written before 1900, in respect of the old business you have affected the thing one way or the other? A.—Yes.

Q.—What preparations are you making, if you are making any, for the alteration which you are bound to bring about at the end of the year 1909, and the further alteration you are bound to bring about at the end of 1914? A.—We have made no definite provision.

Q.—Have you made any definite or otherwise? A.—Except in so far that our surplus is increasing.

Q.—That is not the result of your consciously doing something in view of what the law provides? A.—No.

Q.—What you have said to me as to the method of treatment you have adopted with regard to old business involves this, does it not, that in respect of all tontine dividends falling due and becoming payable now and probably since 1900 they have been diminished by using a $3\frac{1}{2}$ per cent. reserve? A.—That is the present practice; that plan was not in force in 1900.

Q.—Since the plan has been in force it would have that effect? A.—Yes.

Q.—First I want to go with you very briefly over the terms of your charter, the rights to profits between shareholders and policyholders are provided for by section 16 of the Act of 1901? A.—Yes.

Q.—(Reads from charter) "The directors may pay all expenses in connection with this Act and the proposed agreement and the carrying out thereof, and in addition to any other powers exercised by them the directors.

(A) May set apart from time to time at their discretion such portion of the net profits as they deem safe and proper for distribution as dividends or bonuses to shareholders and holders of participating policies, ascertaining the part thereof which has been derived from participating policies in the Temperance section, and the part thereof which has been derived from participating policies in any other section or sections, and distinguishing such parts from the profits derived from other sources"—you followed that? A.—Yes.

Q.—The directors are authorized to ascertain the part of the net profits which they deem safe and proper to be distributed the part of that derived from participating policies in the temperance section—that is one portion of the fund to be distributed? A.—Yes.

Q.—That is an ascertainment of how much of that fund has been actual-

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ly derived from those policies? A.—Yes.

Q.—That is the way you treat that? A.—Yes, that is the way I am doing.

Q.—That is your construction of the statute? A.—Yes.

Q.—And then another part is to be ascertained by finding out what was actually derived from participating policies in other sections? A.—Yes.

Q.—How many other sections are there? A.—There is the general section, there is the non-participating section, and you may even consider the amount standing to the credit of the shareholders as another.

Q.—“And the part thereof which has been derived from participating policies in any other section or sections;” what participating policies in other sections are there, what other sections, just the general? A.—Those are the only two that I think that is intended to cover.

Q.—That is the temperance and the general sections? A.—Yes.

Q.—Those parts are to be distinguished from profits derived from other sources; from what other sources are profits derived—you have told me I think, from non-participating policies? A.—Yes, and I suppose that is about all that that is.

Q.—It goes on to provide that the holders of participating policies in the temperance section shall be entitled to share in that portion of the profits so set apart which has been so distinguished as having been derived from participating policies in the temperance section to the extent of not less than 90 per cent thereof; and then similarly the holders of participating policies in the other sections are to be entitled to share to the extent similarly of 90 per cent? A.—Yes.

Q.—In respect to profits of participating policies in both sections your construction of the Act is that 90 per cent after they have been ascertained goes to the policyholders, and what about the other ten? A.—It belongs to the shareholders.

Q.—With respect to profits upon non-participating policies what is your construction? A.—They go to the shareholders.

Q.—That is the way you construe the Act? A.—Yes.

Q.—Mr. McLaughlin asked me to ask whether there is not another source of profit that you have omitted to

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mention? A.—It depends what the word profit covers.

Q.—What Mr. McLaughlin suggests is that the capital stock itself may be earning profits? A.—I look at it this way, that the capital stock is earning dividends, and it is impossible, it seems to me, to call the interest earnings of the capital stock profits, because it is not necessary, as in the case of policyholders, there should be a certain rate of interest earned for them, so that we could say the excess interest rates earned was profits.

Q.—This paper which I show you is headed “Estimated surplus, actual results per thousand dollars insured, tontine policies, estimates used from 1887 to 1894”—this is the old Manufacturers'—and then another section, “Estimates used from 1894 to 1896.” This paper has been compiled from your own estimate book so far as it gives estimates? A.—Yes.

Q.—I would like you to look at it and see whether you would agree with it—you understand it? A.—Yes; I presume it is right, though I have never really paid much attention to those.

Q.—Assume then it has been correctly compiled; estimates used from 1887 to 1904 are divided into ten payment life, a period of ten years; ten year endowment, period of ten years; life, period 15 years; twenty payment life, fifteen; fifteen payment life, 15; twenty year endowment, 15; fifteen year endowment, 15. Then I see at the age of 25, the estimate in respect of the ten payment life at a period of 10 years was \$96, according to the literature of your company; the actual result is said to have been \$55; you recognize that, do you—would your understanding of the subject bear that out? A.—Yes, I think so.

Q.—I will just run over these very briefly so that they may appear in the record. These are for the age of 25:

Estimate	.....\$ 96	result	\$ 55
do	..... 161	do	103
do	..... 210	do	133
do	..... 244	do	154
do	.....*349	do	153
do	.....†476	do	187

At the age of 35:

Estimate	....\$227	result	\$119 (about)
do	.... 268	do	145
do 308	do	163
do 377	do	153
do 506	do	195

*(20 year endowment.)

†(15 year endowment.)

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At the age of 45:

Estimate	\$224	result \$	82 (about)
do	331	do	149
do	379	do	155
do	429	do	175
do	450	do	165
do	576	do	198

At the age of 55 the discrepancy is still more marked:

Estimate	\$279	result \$	90
do	604	do	190
do	707	do	195

Then taking the estimates used from 1894 to 1896, at the age of 25:

Estimate	\$111	result \$	47
do	154	do	79

At the age of 35:

Estimate ...	124	do	60
And do ...	155	do	80

At the age of 45:

Estimate	\$157	do	82
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At the age of 55:

Estimate	\$181	do	105 (about)
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Do you attach any significance as an insurance man to the results obtained under the former estimates when the second set of estimates are being prepared, or in other words do you look to the result you have had under the previous estimates—of course you did not do this yourself? A.—No.

Q.—When preparing estimates for succeeding period? A.—I should say so, certainly.

Q.—That would be sound practice? A.—Yes.

Q.—It would be imprudent not to? A.—Yes.

Q.—The next I have is a similar estimated and actual surplus per thousand dollars insured in respect of the Temperance & General. These are the estimates used between 1890 and 1894. The plans are 10, 15 and 20 year endowment, and 10, 15 and 20 year semi-endowment—what does semi-endowment mean? A.—That means a policy issued, take the 20 year semi-endowment, it would carry an insurance say of \$1000 during the 20 years, and at the end of the 20 years instead of promising the \$1000 promise half that amount, \$500, and the premium correspondingly lower.

Q.—And the other \$500 carried as an insurance? A.—No sir.

Q.—It means you only get one half of the sum insured? A.—Yes.

Q.—And your premium is lower? A.—Yes.

Q.—The results that are worked out in this table are as to the ten year endowment at the age 25, as to the 15 year endowment at the same age, and

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as to the 15 year semi-endowment at the same age. The figures are:

Estimate	\$195	result \$	45
do	323	do	185 (about)
do	286	do	125 (about)

These estimates and these results were I suppose open to your amalgamated company when they took over the business and put out estimates? A.—I don't know anything about that.

Q.—If you had been there you would have been able to find it? A.—Yes.

Q.—And it would have been proper practice to find it? A.—I would not care to say yes or no to that.

Q.—Would it be your practice? A.—The question of amalgamation has never come up in my experience so that I could not say whether I might or might not ask for it.

Q.—I am assuming that you are about in the amalgamated to put out estimates for the purpose of attracting business? A.—Yes.

Q.—That is plain, of course? A.—Yes.

Q.—What I ask is whether it would be good practice to ignore the results that were shown in respect of the policies of the two companies whose records were accessible? A.—No.

Q.—The third sheet is a little different, it is intended to show that the tontine estimates of surplus for a term of 20 years per thousand insured have been steadily declining in the literature of the company? A.—Yes.

Q.—For instance take the book used from 1887 to 1894, then the next book used from 1894 to 1896, the next book 1896 to 1900, and the last book of all, the book on which your company is now working? A.—Yes.

Q.—Let us see how those have declined. Your estimates—I mean by that the company's estimates—the life plan has declined from \$340 in the first book to \$284 in the second, \$269 in the third and \$193 in the fourth; that is whereas the original estimate was \$340 now it has gone down to \$193. In respect of the 20 payment life there has been a similar decline, \$475 in the first estimate, \$392 in the second, \$355 in the third, and \$251 in the fourth, or a decline from \$475 to \$251.

Q.—The twenty year endowment the change is still more marked; \$815 in the first, \$523 in the second, no change in the third, but in the fourth reduced to \$368. Take age 35, the life policy, \$478 in the first, \$378 in the second, \$362 in the third, and, \$238 in the fourth. Twenty payment

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life declined from \$619 to \$452, to \$417 and to \$293; the 20 year endowment \$893, \$537, \$537, and \$377. Age 45 life, \$779, \$510, \$497, \$313. twenty payment life \$922, \$543, \$513, \$355. Twenty endowment \$1124, \$577, \$577, \$400. Age 55 life policy \$1682, \$732, \$721, \$448. Twenty payment life \$1813, \$726, there is a blank for the third period, and then for the fourth period \$464, or a decline from \$1813 to present estimate \$464.

That would indicate that in preparing the literature for the amalgamated company some attention had been paid to the experience of the two companies that came in, or it may indicate that? A.—It may indicate that.

Q.—You have not matured any of the twenty year tontine period policies, and therefore there is no actual results yet to be found as to those? A.—No.

Q.—Are you able to say whether or not in your opinion there will be similar results in respect of that species of insurance as compared with the estimates? A.—Yes, in my experience I say so, certainly.

Q.—That the results will be similar? A.—Yes.

Q.—When does your first tontine 20 year policy mature, do you know? A.—I think it matures in 1907..

Q.—I suppose it is not too much to say that insurance is influenced, or the insuring public, those who may be expected to take out life policies are influenced by the estimates which appear in this sort of literature, otherwise of course it would not be circulated? A.—It would not be issued.

Q.—That is the intention of it, and that is the effect of it? A.—Yes.

Q.—Before asking the next question in order I want to appear to deviate for a moment to ask you this question, have you reasons satisfactory to yourself to assign for the great difference between estimate and experience? A.—I gave some reasons yesterday in my evidence on that point.

Q.—If you do not mind I would like you to state them again in this connection? A.—What I mentioned was the fall in the rate of interest since the time the estimates were put out, and the fact that the whole of the fall in the rate of interest came against what we may call the profit portion of that interest. Another reason I gave was that in my opinion the rate of surrender and lapse which

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was probably taken into account in calculating the old estimates was considerably more than experience proved to be the case, as these tontine policies had undoubtedly helped to keep the business in force.

Q.—Made policy holders more persistent? A.—Yes.

Q.—Was there any other reason to assign? A.—I think I said this, that there might be some fall on account of increase in expense.

Q.—Then we have those assigned at this spot; are you familiar with the investigation that recently took place in the State of New York, with the course of that investigation and with its results? A.—Only partially so.

Q.—Do you know whether or not as the result of that investigation legislation has been introduced upon this very subject that we are discussing? A.—I must confess though I have read something about the proposed legislation I am not aware as to how that legislation finally went through. I believe some legislation has been passed, but I do not know what amendments went through before it finally became law.

Q.—This is a paragraph which I will read to you in the legislation introduced:

"No life insurance corporation doing business in this State, and no officer, director or agent thereof, shall issue or circulate, or cause or permit to be issued or circulated any estimate, illustration, circular or statement of any sort misrepresenting the terms of any policy issued by it or the benefits or advantages promised thereby, or the dividends or share of surplus to be received thereon, or shall use any name or title of any policy or class of policies misrepresenting the true nature thereof. Any violation of this section shall constitute a misdemeanor"—did you know of that section? A.—I don't think I did.

Q.—I want to ask you whether legislation of that sort would in your view as an insurance man afford any remedy to the public in respect of matters that we are speaking about? A.—Yes, I think it would.

Q.—In the first place it would make those who get up the literature more careful? A.—It would I think, in some cases.

Q.—That would depend upon the personality of the man? A.—Yes.

Q.—You think that legislation in that direction might afford some remedy? A.—Yes.

Q.—Now with respect to the present

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condition of affairs in insurance matters, does not the present condition make towards stability as compared with the conditions under which these estimates were made? A.—I don't understand that sir.

Q.—You had indicated to me very clearly the reasons which in your view account for or partially account for the extraordinary differences—I should not say extraordinary—but the marked differences between estimates and results in the past, and among those you have spoken of the fall in the rate of interest. Now what I am asking you is whether present conditions do not rather make towards stability as compared with the conditions under which these estimates were made? A. Yes, I should say so.

Q.—And estimates upon which business is now solicited ought to be for that reason much more likely to be realized? That follows does it not? A.—Do you mean to say much more likely to be realized than we know now of the old estimates, or what was thought of the old estimates then?

Q.—Oh no, what we now know of the old estimates? A.—Certainly.

Q.—It may be that conditions were thought to be stable when those other estimates were made but at all events you think the present conditions more stable than those conditions were? A.—Yes.

Q.—What do you know about the practice in British insurance companies with respect to this question, the practice and the results? A.—I know in a general way what I have heard on the subject.

Q.—That is part of the stock of insurance knowledge which qualifies you to be as you are, an admirable actuary. Tell me what you understand about that in Great Britain? A.—Well in Great Britain the majority of the companies divide their profits on what is called, what we in this country know as the quinquennial distribution basis. That is, profits are declared at the end of every five years. In some cases at the end of every three or seven, but usually at the end of every five years. And the Tontine business as it is known, or deferred dividend business, was not in the majority of cases in use, although I believe now some of the companies are doing that class of business.

Q.—Well, is that all you were going to say about it? A.—I don't know just what?

Q.—Do you know for instance the methods that are adopted in British

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Insurance companies for the purpose of forecasting the results that may be anticipated? A.—I don't think that is the general practice.

Q.—What? A.—Of making any estimates.

Q.—You do not think it is the practice to make estimates? A.—No.

Q.—Have you any information upon the subject? A.—Well, in any literature I have seen of British offices they usually published the results of what their bonus has been in the past. It is usually a uniform reversionary bonus, and I think in any literature I have seen that I remember now, I have seen the results that have been arrived at in the past, but I cannot remember now having seen any forecasts.

Q.—Would it be possible in making an estimate for the future to revise, in the light of experience and otherwise the estimate as to actual mortality, so as to make your actual mortality more closely conform to the estimated mortality? A.—By means of selected tables.

Q.—If you can get actual mortality introduced as against estimated mortality, actual interest and expenses as against estimated interest and expenses of course this discrepancy would disappear, substantially it would disappear? A.—Yes.

Q.—In Great Britain are investment conditions more to be depended upon than they are here? A.—That is a subject I have not studied at all, the investments either here or there.

Q.—Do you know whether or not the premiums which are fixed by the British Companies, are fixed with a view to providing for a certain rate of interest or a certain rate of dividend I mean, or bonus? A.—In many cases I think they are.

Q.—Could that be done here? A.—Yes, it could be done.

Q.—How would you set about it if you were going to do it for the Manufacturers? A.—It would be a non-participating policy if you guaranteed the dividends.

Q.—I am not asking about a guarantee, but asking you for such an estimate, the fixing of such a premium as will bring about a bonus or dividend? A.—Well, I could work out a formula to produce that.

Q.—Why do you say that would make it a non-participating policy? A.—Because I misunderstood your first question.

Q.—Now Mr. Papps, to make this intelligible I refer to the circular of

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questions which were sent. Under the heading "Profits" these two questions were asked, "7. Furnish statement showing the proportion of profits allocated to policyholders, maintaining the distinction between the different classes of insurance." And the 8th was "Produce and explain in detail the calculation, whether actuarial or otherwise, upon which the allocation of such profits were made, maintaining the same distinction." The paper that I have in my hand is the answer given by the Manufacturers to those two questions. Did you prepare this? A.—Yes.

Q.—And you are therefore of course familiar with the topics with which it deals? A.—Yes.

Q.—Although this document will be filed I would like this made a part of the record. You first say, "Questions 7 and 8 can best be answered together, as a full description as called for by question 8 will answer question 7. When this company took over the business of the Temperance and General, and the old Manufacturers' Life in 1901, a separate plan of paying profits was in use by each company. Since that time this company has continued to pay profits on the old business which participated in profits each five years, on the same basis as the old companies employed." Now see if I understand what that means. In respect of the old business that participated in profits quinquennially, that plan has been maintained by your present company? A.—Yes.

Q.—That is what that answer means. Then you proceed: "The Temperance and General started business in the year 1886, but no profits were paid until the year 1895. The attached list marked A shows the profits paid on life and limited payment life policies issued on the five year distribution plan. The foot note to the sheet shows the adjustment necessary to arrive at the profits paid to endowment policies." You might just look at that, although I do not know that I am going to give you very much trouble about it, perhaps none at all. Now see if I grasp the significance of this paper. It is headed "Reductions for five years." That means reductions in the premium to be paid? A.—Yes.

Q.—"Reductions for five years beginning with premiums due in January, 1895, or policies issued at ages and years as indicated below." "General section, the profits are in all cases three-fourths of those in the Tem-

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perance section." That is rule of thumb is it not? It may be approximately accurate? A.—I don't know how that was arrived at at all.

Q.—You have said the profits are in all cases three-quarters of those in the temperance section. That I suppose is correct? A.—That is what was paid.

Q.—Then was not paying that, rule of thumb and nothing more? A.—I cannot answer that because I have no knowledge of it whatever.

Q.—I won't press you for an answer to that if you would rather not. Perhaps we can answer that ourselves. "The profits were in all cases taken as temporary reductions, the option of single cash payments of bonus additions not being submitted to the insured." If I understand that it means that the only way in which profits were allocated at all was by way of reduction of premiums? A.—Yes, I might explain that. As I understand it it was this, in declaring profits the insured were not notified that they could get the cash value but I understand in some cases they did take a single cash payment in lieu of that reduction.

Q.—That would be a matter of contract at the time? A.—I presume so.

Q.—It was not provided for in the policy? A.—I think not.

Q.—Then you have given us a table of the amount of the temporary reductions on ordinary life policies, and limited payment life policies, and I do not trouble about that. "For the endowment policies" you say, "take the temporary reduction on the life or limited life according to the respective section, and add the following percentages:

30 year endowment	5 per cent.,
25 year endowment	7½ per cent.,
20 year endowment	10 per cent.,
15 year endowment	12½ per cent.,
10 year endowment	15 per cent."

Now then to go back to your answer, you say, "the attached list shows the profits paid." That means of course the temporary reduction in premiums. "The foot-note shows the adjustments necessary to show the profits paid to endowment policies." Perhaps I had better not ask you again whether the adjustments made for endowment policies were scientific, or whether they were just approximate? A.—Well, I really cannot answer that.

Q.—Would you go about it in that way by fixing a percentage? A.—

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Not unless the percentage happened to figure out the correct thing.

Q.—You would get to the correct result, percentage or no percentage?

A.—Yes, that is my idea.

Q.—“The Temperance and General continued to pay profits on this scale, and at subsequent five year distribution periods declared the same reduction of premiums for the next ensuing term of five years as for the previous term.” What about that? A.—As I understand it, it was simply this: having once fixed the scale they neither increased nor decreased it at the next five year period.

Q.—They did not modify it in view of the actual result of their operations?

A.—Not that I can find.

Q.—“The fact that the amount of the premium reduction was the same has led some policyholders to believe that but one declaration has been made. This is not the case, as the amount of profits declared at any one time is used up at the end of every five years.” A.—We have letters from some policyholders who were under that misapprehension. That is why I put that in.

Q.—What you say is that when by way of temporary reduction of premiums profits are declared, they are profits which will in that method of applying them to the reduction of premiums, work themselves out at the end of five years? A.—Yes.

Q.—And then a further declaration of profits must be made. I gather that you mean to say that the present company is treating these policies in the same way? A.—Yes.

Q.—Right down to the present time? A.—Yes.

Q.—In other words you are following out the methods in that respect of the Temperance and General? A.—Yes.

Q.—Then you go on and say, “there are no records to show who is responsible for calculating these profits, or what method was employed. The old Manufacturers started business in the year 1887, and shortly afterwards Mr. David Parks Fackler, of New York, became the consulting actuary of the company. When the time arrived to pay five year profits on any policy the company sent particulars of the policy to Mr. Fackler, and he furnished the company with a statement of the amount to be paid. Mr. Fackler continued as consulting actuary until the year 1899.” These are facts which you have ascertained by inquiry of course? A.—Yes.

Q.—“As far as the records of the company show there is nothing to indicate in what way Mr. Fackler arrived at the amount of profits which should be paid. From a comparison of the profits allowed on various policies the scale shown in the attached list marked B was arrived at. This shows the profits to be a temporary reduction of the premiums payable during the next succeeding five years, the reduction being a certain percentage of the premiums.” Does that indicate that in respect of these policies also the profits declared were applied in reduction of premiums exclusively? A.—They were calculated in that way, but the policyholder was, I think, notified, that he had the option of taking either the cash value of these profits or an equivalent addition to the amount of his insurance.

Q.—Can you recollect whether that was a privilege that he was entitled to by virtue of the original contract, or whether it was something which was then put before him as an option? A.—I don't know.

Q.—Then we will look at table B and we get on the five year distribution of the old Manufacturers for the first quinquennium the following result. The first quinquennium would arrive at the end of five years, then there would be under the terms of the policy a right to distribution of profits? A.—Yes.

Q.—And then those profits would be apportioned by way of relieving the amount to be paid upon the premium? A.—Yes.

Q.—For the ensuing five years only? A.—Yes.

Q.—Then the temporary reductions to be applied from the 6th to the 10th year were, you have ascertained, as follows:

“Whole life policies 12½ per cent.”

“Life 20,” that means 20 payment life? A.—Yes.

Q.—All 11 per cent. Life 15 payment, 10 per cent.,

Life 10 payment, 8½ per cent.,

10 year endowment 7 per cent.,

15 year endowment 8 per cent.,

20 year endowment 9 per cent.,

25 year endowment 10 per cent.,

30 year endowment 11 per cent.,

35 year endowment 11 per cent.,

Now before going to the second quinquennium, let me ask you, as I have before with respect to other matters, whether that would be your way of fixing profits A.—No, that would not.

Q.—That indicates a mechanical

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process, and not a mathematical process does it not? A.—Unless the mechanical happens to equal the mathematical.

Q.—Is it likely? A.—I don't think so.

Q.—Well, I don't either, if my opinion is of any value. Then the second quinquennium would be at the end of the tenth year. That would be another right to a distribution of profits. And that again when ascertained would in theory at all events be applied in reducing the premiums from the 10th to the 15th year? A.—The 11th to the 15th.

Q.—The 11th to the 15th, you are quite right. Then you have ascertained that the percentages in respect of the same classes are as follows:

“Whole life 17.7 per cent.,
20 payment life 14 per cent.,
15 payment life 12 per cent.,
10 year endowment 8.6 per cent.,
15 year endowment 10.3 per cent.,
20 year endowment 12 per cent.,
25 year endowment 13.7 per cent.,
30 year endowment 15.4 per cent.”

The 35 year endowment has disappeared there; how is that? A.—The only explanation I can give is that no 35 year endowment reached the end of the second quinquennium.

Q.—And I see also that the ten payment life disappeared. Is the same reason given for that? A.—The policy would be paid up at that time.

Q.—If the policy reached the third quinquennium, that is the end of the 15th year, then there would be no declaration? A.—Yes.

Q.—And you have ascertained that in respect of the third quinquennium that the same percentages were used as in the second? A.—Yes.

Q.—Is there any scientific justification for that? A.—I cannot say positively, but my own opinion is that as you will notice the percentages are smaller in the first quinquennium, and that is presumably to make an allowance for the fact that in the early years of these policies there was the expense of getting the business in the first year, and the expense would be higher in that year than in the later years.

Q.—Why should there be no distinction between the second and third quinquennium? A.—I presume it was assumed that the profits in the third would be about the same as in the second.

Q.—Again I ask you, is that in your

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view scientific? A.—No, I should say not.

Q.—And is that the way in which these policies are being treated now by the Manufacturers? A.—Yes.

Q.—They are being treated in the same way, the same percentages? A.—The same percentages.

Q.—Everything in the same way. Then your answer proceeds, “There is very little to show who is responsible for the profits by the old Manufacturers Life on ten year Tontine policies, but Mr. Fackler was consulting actuary at the time the first ten year Tontine policies matured, and very few policies were issued on this plan, but the profits paid, expressed as a percentage of the annual premium, are shown in the list marked C.”

Now I will read what you say about that before going over to the list marked C. “The list shows that since 1901 any ten year Tontine policies issued by the Temperance and General in the temperance section have been credited with the same profits as similar policies issued by the Manufacturers. For policies issued in the general section the profits have been 10 per cent less. Owing to the favorable rate of mortality experienced on foreign business and the ample premiums received, the profits paid on 10 year Tontines have been a higher percentage of the premiums than for home business. The ten year Tontines which have matured have been issued altogether in the West Indies, and vicinity, where the mortality has been most favorable.” Before turning to the tables, you find that in respect of profits on the old Manufacturers' Life 10 year Tontines, the profits that have been paid may be, according to the practice that was adopted, expressed as a percentage of the annual premium? A.—Yes. I cannot say that they were arrived at in that way.

Q.—But you find that they may be so expressed now? A.—Yes.

Q.—Then you also find that since the taking over of the old business, the ten year Tontines issued by the Temperance and General in the Temperance section have been credited with the same profits as similar policies issued by the Manufacturers, while policies issued in the general section have been receiving 10 per cent. less? A.—Yes.

Q.—Now if I understand that, it means that whereas the Temperance and General before the amalgamation were issuing two classes of policies, or policies in two sections, one to

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abstainers and one to those who were not abstainers, and whereas the Manufacturers before the amalgamation was issuing general policies, you find now that profits as between the abstainers and the old Manufacturers—that the policies are being paid the same profits? A.—On these particular classes of policies.

Q.—I say as to those ten year Tontines? A.—Yes, that is right.

Q.—Do you explain why that was done? Is not the mortality in respect of the abstainers markedly favorable? A.—Yes.

Q.—As compared with the mortality in respect of the Manufacturers' general policy? A.—The Manufacturers have no general policies, they were all grouped together.

Q.—I mean the policies issued by the Manufacturers? A.—I have no data as to that.

Q.—You are not able to say upon what table or expectation of mortality the old Manufacturers policies were issued? A.—Oh yes.

Q.—Then how does the mortality in respect of abstainers compare with that mortality? A.—It is much more favorable I believe.

Q.—Then is not the abstainer, by virtue of his contract, entitled to be treated upon more favorable terms as to profits by reason of that advantageous mortality? A.—Then the general section, yes.

Q.—Now we will turn to the table marked C. "Ten year Tontine Manufacturers' Life 1.43 of the annual premium equals cash profits." What does that mean exactly? A.—As I understand it, 1.43 of the gross premium paid would pay the amount of the ten year Tontine profits on that policy.

Q.—Then 10 payment life 1.25 of the annual premium? A.—Yes.

Q.—15 payment life 1.3 of the annual premium? A.—Yes.

Q.—20 payment life not calculated. 10 year endowment .83 of the annual premium is equal to the cash profits, and the other endowments are not calculated. A.—I might say that that percentage there should be 143 per cent. really. That "percentage" should be taken out. It is 1.43 times the annual premium. The stenographer made a mistake.

Q.—If you would strike out the word "per cent." where it occurs there, it is 143 to every 100 of premium? A.—Yes.

Q.—Then in the Temperance and General, since amalgamation, on Tem-

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perance policies the same percentages as those we have just spoken of, while for policies in the general section you deduct 10 per cent. of that? A.—Yes.

Q.—Why 10 per cent.? You don't know? A.—I don't know. I have no personal knowledge of that.

MR. McLAUGHLIN: He may be able to answer that question from his general information that he has arrived at, the same as a good many other questions he has been asked and given his opinion from his general knowledge.

MR. SHEPLEY: If you have information upon the subject, Mr. Papps, of course we desire that? A.—I have no definite information. My understanding of it is this, that at the time those ten year Tontine policies in the Temperance and General came up for distribution I understand there were very few of them, it was I understand assumed that the Temperance section policies in the Temperance and General would have earned about the same profits as the general section policies—or, I beg your pardon, as all the policies together in the single section in the Manufacturers; and that the general section in the Temperance and General would be slightly less. Just the various reasons for that I don't know. One point I think I should explain; I may have made a mistake in my evidence a minute or two ago. The mortality in the Temperance policies is considerably less than the mortality in the table which you were referring to on which the Manufacturing policy rates were calculated, but I presume the mortality of the Manufacturers as a whole was considerably less than that table as well. I don't think I made that plain.

Q.—Just put that again. A.—Although there was a considerable saving no doubt between the actual mortality in the Temperance section of the old Temperance and General Company, and the table used in calculating the premium rates, in the Manufacturers' Life I think that may be safely assumed that there was also a considerable saving between the actual mortality experienced by the Manufacturers and what would be expected by the same table.

Q.—We will come to that later on. At all events that levelling has been continued. Did you understand that it was in respect of this levelling up of the abstainers and the policies of the Manufacturers, by reason of any

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difference in expense in the two amalgamated companies? A.—No, I cannot say that I did. I never understood it except in a sort of general way, that it was not thought that the profits earned by the Temperance and General in the Temperance class would exceed the profits earned by the Manufacturers.

Q.—Then we will return to your answers. The rest of that table deals with the foreign ten year Tontine. I must not omit that. The foreign ten year Tontine you find in this shape, 10 payment life one third higher than the percentage used at home. That is 1.25 which we find here in ten payment life, multiplied by 4, and divided by 3 equals $1.66\frac{2}{3}$? A.—Yes.

Q.—That is instead of having, as in the case of a domestic policy, 125 of profits for every 100 of premium, it would be $166\frac{2}{3}$ for every 100 of premium? A.—Yes.

Q.—Well then, with respect to these foreign policies, what is this? A.—That means that in purchasing a bonus addition, that is additional insurance, in these tropical countries we would use not the home but the tropical experience in order to obtain the amount of that addition which the cash profits would purchase. That of course would bring a smaller addition for the tropical business.

Q.—That is you take $3\frac{1}{2}$ per cent. from the H. M. table as representing the tropical mortality experience? A. No, that H. M. table should not be there. It should be A. M.

Q.—What does A. M. mean? A.—American tropical experience— $3\frac{1}{2}$ per cent.

Q.—How do you treat the $3\frac{1}{2}$, what is the mathematical process you have gone through? A.—We take from the table of single premiums, calculated from the American Tropical mortality experience and $3\frac{1}{2}$ per cent. interest, we take the single premiums from that table to find the bonus additions.

Q.—And then you treat the single premiums on the percentage you have spoken about, the $1.66\frac{2}{3}$? A.—Yes, on the cash that produces.

Q.—Then your answer proceeds, "the 15 year Tontine profits which have been paid are illustrated on the sheet marked D. The method of arriving at these profits is also stated." We will take that for a moment. This is the 15 year Tontine. What you have got here is "Tontine profits Manufacturers, table D, 15 year Tontine." Then you have, "Life, 20 payment life, 15 payment life, endowment 15,

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and endowment 20." "From the gross $4\frac{1}{2}$ per cent. rate" what does that mean, premium rate? A.—Yes, the premium rate charged.

Q.—"From the gross premium rate deduct 10 per cent. for expenses, and the net mortality 5 per cent. rate for cost of insurance," A.—Yes.

Q.—Why 10 per cent. for expenses, was that enough to deduct? A.—That you will see only refers to years subsequent to the first. That is made plain in the next sentence.

Q.—"Accumulate the balance for 14 years at 5 per cent. To this an addition is made for favorable mortality" Then you have the ages set out here, and this is the favorable mortality addition in this column? A.—Yes. I might say that that addition is supposed to cover favorable mortality and any other minor sources of profit.

Q.—And this total profits is what you arrive at after making this constant addition, I don't know that constant is the proper word there is it? A.—It varies with the age.

Q.—But otherwise it is a constant addition, to what? A.—To the amount arrived at.

Q.—By accumulating a balance of the gross premium after deducting 10 per cent. for expenses, and five per cent. rate for cost of insurance? A.—Yes.

Q.—You accumulate that for 14 years at 5 per cent., and add to it at these various ages these various additions. At age 20, 33, running down to 22 at age 60, and the result will be the total profits in respect of that. Now were the actual expenses as low as 10 per cent. or are you able to answer that? A.—I am not able to answer that.

Q.—What is your view as to that in view of your experience? A.—You see the whole of the saving in the first premium over and above the 5 per cent. net rate is allowed to go for expenses, and then 10 per cent. of the balance. Now, I doubt in my own mind whether that in itself would cover all the expenses or how much of the expenses may have been covered by other minor sources of profit not taking into account in arriving at this addition, I don't know. It may be that that addition was simply considered as it says here, may have been taken to represent simply favorable mortality. It may have been that the profits from surrenders and lapses was considered to offset a certain amount

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of expenses not covered by that. I have no information on that.

Q.—Then let me put it hypothetically. If that difficulty in meeting your expenses out of a ten per cent. deduction existed and was compensated by taking the benefit of surrenders and lapses, was that according to the contract? Was that proper? A.—I don't know that the contract has anything to say as to how the profits are to be divided.

Q.—Is it according to sound insurance then? I do not want to adhere to any particular form. A.—I should say it was.

Q.—You would say it was contrary? A.—No.

Q.—You would say it was according to sound insurance? A.—Yes, according to.

Q.—If a group of policies is entitled to the benefit of forfeitures and lapses, they are entitled to that benefit in proportion to the amount they have at risk of lapse and forfeiture are they not? A.—Well that seems to me to be a case where it is largely a matter of actuarial opinion. Whether it is a matter of contract or not I don't know.

Q.—I am not at all adhering to my first form of questions as to whether it is according to contract. I want to get your actuarial opinion, if you put it so, I want your actuarial opinion upon the soundness of that from an insurance standpoint. Am I right or not when I put the question in that way, that the benefit of forfeitures and lapses should be in proportion to the amount which the respective policyholders have at risk of forfeiture or lapse? That sounds almost like A, B, C to me; I do not know whether I am right or not. A.—I think some actuaries would be inclined to agree with that, and others to disagree with it.

Q.—Do you agree with it? A.—I think that is right theoretically.

Q.—Then I will take that admission and thank you for it. If that is so, the older policyholders in any given group are entitled as against the new or recent policyholders to a greater advantage out of possible forfeitures and lapses. That follows too? A.—I should say so.

Q.—Then if you take that fund arising from forfeitures and lapses and devote it to the payment of expenses, don't you deprive to that extent the older policyholders of the legitimate advantage which they ought to have in respect to forfeitures and lapses?

A.—If you take the whole fund, yes. But part of the fund arising from surrenders and lapses is theoretically anyway made to provide other lives to take the place of those policies going out.

Q.—I am not questioning the expense of dealing with the extent to which that legitimate advantage is taken away from the older policyholders. To the extent to which expenses encroach upon that fund, to that extent that legitimate advantage is taken away; that must be so if what you have assented to so far is sound. You agree to that don't you? A.—I don't know that I can agree to it just in that form Mr. Shepley.

Q.—Why not? I will alter the form, I do not want to stick in the bark at all. To some extent if you devote that fund or any portion of it to expenses that interferes with the legitimate advantage to which we have referred? A.—Not when you put in the qualification "any portion." I cannot say yes to that.

Q.—I thought you spoke of the whole at one time. When you spoke of the fund arising from forfeitures and lapses being a minor portion of what went to eke out the inadequate expense allowance, did you mean that, that it was a minor portion, a minor consideration, a minor advantage? A.—I think that has been the experience. Of course now I am just giving what I understand from my own impression of the thing.

Q.—Let me put it now going to the full extent. If the whole of that fund arising from forfeitures and lapses is made use of to eke out the inadequate allowance for expenses, that of course is open to the objection which we have been speaking about? A.—Yes.

Q.—If half of it is taken that is open to the objection similarly although perhaps not to the same extent? A.—It depends on how the fund is made up. There are two parts of it. If I might be allowed to explain I think I can make that clear.

Q.—Can the fact that there are two parts of it interfere with what I thought you were frankly conceding to me, that the amount that each policyholder has at risk is the determining factor as to his interest in the fund? A.—It only determines in my opinion his interest to a certain portion of that fund.

Q.—What portion, what have you in your mind? A.—I can explain that in one minute. It is this, if a policy lapses, or rather put it in this

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way, if a policy is surrendered, supposing there is \$100 then at the credit of the policy and that its cash value is \$80, there is a saving there of \$20. If the reserve on that policy is \$90, we can consider then that the difference between the \$90 and \$100 is a profit from the surrender, that the difference between the \$90 and \$80 is a surrender charge which as I say has been made to, in theory at least, help pay for getting in another life to take the place of the one going out.

Q.—Then the surrender fund proper, the fund arising from lapses or surrenders properly is the difference between the 90 and 100? A.—Yes.

Q.—Then that fund ought not to be taken for expenses? A.—No.

Q.—That is in the nature of surplus or profit? A.—Yes.

Q.—Then you are familiar enough with the subject to say what the expectations of policyholders legitimately were in respect of that fund, that proper surplus fund that we are now speaking of? A.—No, I am not sufficiently familiar with the terms of the old contract.

Q.—Don't you have to deal with them constantly, those old contracts? A.—I very seldom see an old policy issued about that time.

Q.—And you have not given the matter any consideration, or sufficient consideration to enable you to deal with that? A.—No.

Q.—Then I see that in table D, to which we have been referring, you have further computations. First as to the 20 payment life, that is the same basis as the life, using life 20 rates instead of life rates, and that gives a different addition for favourable mortality? A.—Yes.

Q.—15 payment life, the same basis as life and life 20, using life 15 rates with certain other additions to favourable mortality. Now endowment; we have to commence at the beginning for endowment again. In respect of a 15 years' endowment, you take the gross premium rate, which is a 4 and a half rate, deduct 6 per cent. for expenses and the same old 5 per cent. for insurance. Then you accumulate the balance for 14 years at 5 per cent. and add a saving in mortality of \$16. Now will what we have been talking about with respect to the 10 per cent. apply to the 6 in principle? A.—I think so, yes.

Q.—Then we need not repeat that. All you have told us about that will apply to the 6 per cent? A.—Yes.

Q.—Then I see you add that the com-

putation is the same for all ages. Is that right? A.—That means that the addition of \$16 is constant for all ages.

Q.—Is that right? A.—I think it is probably fairly close to what would be the true case in view of the fact that on a 15 year endowment the reserves do not differ very much at each age and it is possible that there would be a smaller difference on a 15 year endowment than on a whole life from favourable mortality.

Q.—But I see the gross profits differ? A.—Yes.

Q.—Then the thing to which you add the favourable mortality differ also? A.—I should say not necessarily.

Q.—And if it differs should not the addition for favourable mortality differ also? A.—I should say not necessarily.

Q.—The difference would be trifling anyway? A.—Yes I think so.

Q.—Then when it is a 20 year endowment you take the same basis as the 15 year endowment with a different addition for favourable mortality. I see a 20 year endowment gets an addition of \$23? A.—Yes.

Q.—As against the \$16 allowed on a 15 year endowment? A.—Yes. There is more at risk during the years on a 20 year endowment and if mortality has been favourable there should be a larger saving.

Q.—Then is not the same thing applicable to that as we were talking about with regard to 15 year endowment, that is that there ought to be some difference between the addition at the various ages? A.—Yes.

Q.—And we find in fact that there is that difference in a 20 year endowment? A.—Yes.

Q.—I won't take you back to that because you have answered that fairly enough. Now we will go back from the tables to your answers, and I see that you say that the methods described in the preceding paragraphs are almost if not entirely arbitrary. Now that is right isn't it? A.—That is my impression in looking over the thing. It is my impression only, for I have no information in regard to that.

Q.—Then you go on to say that "It is believed." I suppose that means believed by you? A.—Yes.

Q.—"It is believed that they have divided the surplus fairly equitably and the amount of profits paid is probably fairly close to the amount the policies earned."—A.—Yes.

Q.—That is the opinion you form although you say the methods were ar-

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bitrary and lack scientific accuracy?
A.—As far as I can determine.

Q.—Then you go on, "Believing that the methods of paying profits heretofore in force were unsatisfactory for many reasons." What reasons? Because they were not scientific? A.—Yes, that is one of the principal reasons. Another is that there did not appear to be in the office any particular information in regard to them. Those profits were for the most part arrived at by as I have said in one case, by Mr. Fackler, a New York consulting actuary, and in the case of the Temperance and General I don't know how they were arrived at and there was no information in regard to it and I did not consider that satisfactory.

Q.—At all events you believed that the methods of paying profits were unsatisfactory and you say "The company for the last couple of years has been preparing for a complete investigation of the profits earned. For the past year a special staff under the direction of the actuary of the company has been constantly at work on this investigation." I do not want to criticize your language, but I think you did not mean to say "preparing for an investigation" but "making an investigation." A.—No sir, I meant it just as I have said it there.

Q.—Been preparing for it? A.—Yes.

Q.—Then has the investigation commenced yet? A.—Yes, it has been going on for a year.

Q.—Then you have been doing more than preparing for it, you have been preparing for it and for a year it has been actually going on? A.—For two years I have been getting a staff and training my men and for a year I have been actually doing it.

Q.—For two years you have been preparing and for one year of those two you have been at the work as well as going on with the preparation and training? A.—Yes.

Q.—Now we will go through your statement as to the method employed in the investigation without any comment until it is completely stated. "The method employed in this investigation is comparatively simple but entails an immense amount of work. Instead of trying to arrive at the profit earned by the company and then distributing that profit in a more or less arbitrary manner, the present method consists in what is really a system of accounting by means of the

card system. Policies issued on the same plan, in the same year, at the same age are grouped together on one summary card, which somewhat reduced the number of cards to be handled. The actual amount of yearly premiums paid is credited to each card. The actual interest earnings, expenses, cost of insurance, etc., are allotted to the various cards and in this way the actual funds at the credit of each policy or group of similar policies is determined. When profits are paid to any policy, the amount so paid is deducted from the fund at the credit of that policy and the balance is carried forward. On the completion of this investigation the amount of profits to be paid to any policy may be determined by a comparison of the fund at the credit of the policy and the reserve thought necessary to be held. In connection with the matter of determining the reserve to be held for any policy it might be well to mention that although the total policy reserves to be held by the company are required to be calculated by the net premium valuation method and by a certain standard, it is not necessary that the reserve used to determine the profits for any individual policy or class of policies should be calculated in this manner." That is an accurate statement of the method which you have employed? A.—Yes as far as I can give it.

Q.—Now the first question I want to ask you about is, you take policies you say, issued on the same plan, in the same year and at the same age and you group them together on one summary card. Just give me a little more full description of what you mean by that? A.—We have a separate card, I may show you here, for each policy. Having these cards all written up for the year, we would sort them, for example all the whole life policies together first. We would take all the whole life policies and sort them by age of entry. That would then group together in small classes all whole life policies issued say at age 25. There might be 15 or 20 of those cards. We would then take those cards and find out how much insurance they represented. We would then take one of these summary cards and enter here, age 25, the year in which the policies were issued, the particular section of the company, this column, the annual premium per thousand of insurance. Here is "Whole life."

Q.—Your first sorting assembles all the policies issued on the same plan of

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insurance for the same year at the same age? A.—Yes.

Q.—That is your first assembling? A.—Yes. Then the total amount here is entered at the head of this card in the first column and from that time on it is not necessary to consider these cards until any particular one lapses or goes off the books. When that takes place there must be an adjustment of this fund which is built up at the credit of all those particular policies.

Q.—That is there is a sort of group fund built up in respect of each group assembled in the way you have stated? A.—Yes.

Q.—Then what course do you take in respect to profits, what does the card show in respect to profits, anything? A.—Well, this side is the same as this. You will notice there are five years arranged one following the other; the idea of this card is that at the end of five years we have brought out here a certain fund. Having arrived at the amount of the surplus to be determined, that amount is placed here and the balance of the fund is brought down to be carried forward. That is the provision made on this summary card.

Q.—That does not yet tell me exactly how you arrive at the amounts you fill in? A.—The amount of the surplus.

Q.—What surplus, the whole surplus? A.—The surplus to be divided goes in there.

Q.—The surplus to be divided among the policies which are grouped upon this card? A.—Yes.

Q.—I want to find out how that is ascertained? A.—That is a particular case which has not yet come up in this investigation because we are not far enough advanced.

Q.—You are not to the end of a five year period? A.—We are at the end of a five year period in the old Temperance and Geenral, but they did not pay any profits until the year 1895, and I am not yet up to the year 1895 in this investigation, so I am not taking off the surplus, I am building and bringing the funds forward until the time they pay profits.

Q.—Then you have commenced with the beginning of things? A.—Taken every policy ever issued by either company.

Q.—And the result of your work is intended to cover all the operations of the company and its dealings in respect of all past and present policies? A.—Yes.

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Q.—It is a record of the actual history of the operations of the company? A.—Yes.

Q.—And you have not yet arrived at the stage in the work you have been doing when it has become necessary to actually ascertain and apportion the profits? A.—No. Of course I have only one thing to deduct there in regard to the old business, that is the surplus actually paid on these policies.

Q.—Will the result of that investigation and following that method, in the end give you in respect of all present policies something upon which you intend to act? A.—Yes, it will give me the exact funds at the credit of them according to the exact experience of the companies.

Q.—Of course it is too early to say, but will those funds in your opinion, as far as you have gone and having regard to your general experience and the evidence you have given us, will the exact amount be greater or less than would have been reached had you dealt with the matter in the way in which other policies have been dealt with that have gone out? A.—I could not say at all.

Q.—You cannot say how that will be? A.—No, I have no information on it.

Q.—Having regard to the experience that you have had as indicated by these tables we were looking at this morning, the comparison of estimated profits with actual profits, would that throw any light upon the question? A.—Let me understand that question if I may trouble you sir

Q.—I suppose that policies which have gone out and have taken away their proportion of the profits have been dealt with, or the dealings of the company from time to time with these policies have been influenced to a greater or less extent by the estimates which have been on foot, or is that wrong? A.—I don't think the estimates have affected it at all.

Q.—Well, perhaps not. I wanted to see what you, as an insurance man would say to that. Then this is your method. Is this something that is actual or just an illustration? A.—These are the actual cards. I filled this in to further explain.

Q.—Let me take the individual card. This has a place for the name, the address, the occupation, and the agent. Then the number, the plan, the age, the section, the date of issue, the yearly premium, half-yearly prem-

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ium, quarterly premium. Amount. Profits cancelled by. What is that "in" for? A.—Cancelled by, in "06."

Q.—That is the date? A.—Yes. Each of these cards are exactly the same. The colors designating the sections.

Q.—Home general, white. Home abstainers, buff. Sub-tropical, yellow; and tropical, blue. Then the summary card itself is white? A.—Yes. (Set of cards marked Exhibit 70.)

Q.—May I use these to put them in? A.—Yes.

Q.—Then after your investigation is complete, and after you have ascertained the amount at the credit of any particular policy, what course will be taken in determining what is to be paid to that policy? A.—I can perhaps answer that question by taking one or two examples. In the case say of a 20 year Tontine policy maturing, in order to arrive at the surplus at the end of the 20 years, we would ascertain the reserve to be held on that policy, and the balance of the fund at the credit of the policy over and above the reserve would be of course the cash profits.

Q.—The language used in your answer is: "On the completion of this investigation the amount of profits to be paid to any policy may be determined by a comparison of the fund at the credit of the policy, and the reserve thought necessary to be held." A.—Yes.

Q.—"The reserve thought necessary to be held," what does that mean? A.—I put that in referring more particularly to five year distribution policies. I don't say that it is necessary. The reserve which the company holds belongs to the policies collectively, even if as a matter of calculation it is necessary to take each policy into account in calculating that reserve, but I do not hold for a minute that the reserve used in calculating the total amount attaches to each individual policy. Now at the end of five years I would not consider it necessary, or absolutely necessary that a company should hold a reserve calculated at $3\frac{1}{2}$ per cent. interest, the net reserve, and simply pay the balance as profit.

Q.—You would not think that necessary? A.—I would not consider it absolutely necessary.

Q.—State first why, and then we will get at that a little more in detail. A.—Because I would say this, for some plans at least the net $2\frac{1}{2}$ per cent. re-

serve could be considered, rightly I think, as more than was necessary to be held at that time.

Q.—What is the reserve kept back, what is the purpose of keeping the reserve, or keeping a reserve we will say? A.—It is that the company's total assets may not be less than the total liabilities.

Q.—For the protection of whom? A.—For the protection of the company as a whole.

Q.—The reserve itself, the reserve as we have been discussing it, and as it is provided in the statutes to be maintained—in other words, what is the obligation, what is the liability which the assets must equal? A.—The value of the policies.

Q.—That is something in which the policyholders are of course interested? A.—Yes.

Q.—Now then you have told me that you do not consider the $3\frac{1}{2}$ per cent. reserve necessary to be kept when you are determining the amount of profits to be paid to any policy. Will you go on and explain that to me? A.—That is at the end of the first five years, because I consider this that while if we were to go back for 20 years we would find I think in the company's accounts such items in the assets as commuted commissions, representing what they could consider, and I think rightly too, although I would not advise it being put into the accounts, the value to the company of the new business recently purchased. If we are to put such items in our accounts nowadays we could hold a considerably higher reserve without affecting the amount of our surplus shown in the accounts, but I would say that in paying profits at the end of five years on say a whole life policy, we might rightly consider that that policy stood us—that we had paid a good price for it, stood us as an asset, and that part of the $3\frac{1}{2}$ per cent. reserve we might consider had been covered by that unclaimed asset, and that the balance was sufficient to actually hold against that policy, and the rest might be paid as surplus.

Q.—Now what have you in your mind as, to use your own expression, unclaimed assets which might be so taken into consideration? A.—I have in my mind this fact that the company at the end of the five years has on its books a policy under which a policyholder has guaranteed to pay a premium for the whole of his life; that the policy thereafter simply costs the company the cost of maintenance; on that

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particular policy the company is under no cost whatever for first year expenses, that has all been passed. I consider then that that policy is of considerable value to the company.

Q.—Isn't that theoretically at all events taken into consideration in fixing the reserve which you are required to maintain? A.—No.

Q.—Or is that all eliminated? A.—Everything in regard to the cost of the business and that sort of thing is eliminated.

Q.—Then how much relaxation would you think permissible between the reserve which you were required by law to maintain, and the reserve which you would think necessary to hold in determining the profits? A.—That, as I say, is a point that I have not yet come up to in my investigation. That is a point that must be very seriously considered.

Q.—That is a matter which is still open for inquiry? A.—Yes.

Q.—You have not come to a decision upon that? A.—No.

Q.—You think it may be somewhat less, for the reasons you have stated but the extent to which it may be permitted to be less you have not considered? A.—No.

Q.—That is, you have not considered with sufficient care to express an opinion? A.—No. I might hold the full reserve.

Q.—You may come to that conclusion? A.—I may, but I would not put it down as necessary, that is all I intend this to mean.

Q.—You intend in making that answer to reserve the whole subject for future consideration? A.—Yes.

Q.—Now, reverting to a subject which we have discussed already, does not what you have said necessarily indicate that the cost of new business has not yet been made good out of the new business itself? Reverting to what we were speaking of last night? A.—You mean at the end of the five years?

Q.—Yes. A.—Not on all plans.

Q.—On some plans? A.—On some plans, but not on all.

Q.—But the very statement that you have made with respect to the reserve involves that consideration with the ratio of expense, the increased ratio of expense in case of first insurance has not yet been made good at the expense of the policy itself? A.—I think that would be the case on some plans.

Q.—In other words you use that smaller reserve, or you may use it

if you come to that conclusion, upon the theory that you require longer than five years to make that good out of the policy itself? A.—Ye s.

MR. McLAUGHLIN: It would be necessary to hold a larger reserve in some cases.

MR. SHEPLEY: He has reserved that whole question. A.—There is no question raised about that.

Q.—Now you know this document I suppose? A.—Yes, I prepared that or had it prepared for me.

Q.—This is a document which gives the percentage of actual to expected cost of insurance on the basis of Spragg's Hm. selected mortality. What is that? A.—Well, we come now to the question of selected tables that I referred to yesterday. This table was compiled by Dr. Spragge, a well known British actuary, and it is based on the same data used to compile what is known as the Hm. table, which is a table technically known as a mixed table. These tables of Dr. Spragge's take into account the length of time which each life has been insured, in arriving at the rate of mortality. To give an example: according to Dr. Spragge's tables, a life aged 25 will experience a certain rate of mortality in the first year of insurance, and that as a matter of fact will be a considerably lower rate of mortality than will be experienced by a man 20 years of age passing through his sixth year of insurance. In other words it means, coming now to this statement, that in preparing or estimating the expected cost of insurance for this business, we have taken into account the fact that those lives in this column have just recently been examined by the doctors.

Q.—That is what I want to get at. The word "selected" is used because in respect of the earlier period of insurance the risk is selected by reason of it having been made the subject of medical examination? A.—Yes.

Q.—And in that way you get, or you give, the benefit accruing from the fact that in that sense the life is a selected life? A.—Yes.

Q.—Then so much for Spragge's selected mortality table. Now I am interested in results. You have taken three years, 1903-04-05, and you have given the percentages of actual to expected cost of insurance in the case of abstainers with profits, abstainers without profits, general with profits, and general without profits, and you have arrived at total percentages, which is all I want to trouble with at

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present. In the case of abstainers the total percentages for the three years are 37.39 in 1903; 43.25 in 1904 and 37.26 in 1905. Those are the figures A.—Yes.

Q.—And the percentages to be compared with those in respect of the general body of insurers are in the three years respectively 71.13, 61.90 and 78.07? A.—I may say that that is a sort of information that we would not like to give out to competitors in this business. If it is necessary of course we cannot avoid it. Some of our foreign business in the same way, it is information we have got from our experience.

MR. HELLMUTH: Will the witness speak out? A.—I was making this point, our experience in certain classes of business, and I refer now also to our foreign business, that unless it is absolutely necessary for the purpose of this investigation, we would prefer, I am speaking now personally, from my own opinion, that it should not be made the general property of all our competitors. We have no hesitation, not the slightest hesitation in giving it to the Commission. If it is necessary of course we cannot say anything. This only refers to the Temperance section. We are only one of a very few companies in Canada making a specialty of that particular business. That has been done and I don't object to that.

MR. SHEPLEY: The point will have to be determined from time to time as it arises, and if I am putting forward anything that you have an objection to making public, let us discuss it before it is made public. Whatever is necessary in the course of the inquiry will have to be. You have told me in respect of the figures in that, the standard with which you made the comparison was what? A.—Spragge's Hm. selected mortality tables.

Q.—As to the advantage in respect of mortality of abstainers, do you know whether that is borne out by the data of other companies? A.—In a general way I should say that it was.

Q.—Now returning to the tables that we looked at a while ago which compare estimates with actual results, where actual results have been obtained, I want to ask you a further question. If a surplus is treated as having been accumulated for all your policies on the same basis as the distributions which have been actually made, would that accumulation agree with, would it exceed or fall below the sur-

plus which in fact exists? A.—I can only say this, that as far as I know there is no means of finding that out until this investigation which I have referred to as being carried on in my office is completed. I might say this though and I think it is important, that the amount of divisible surplus shown in the accounts of the company, of every company, is really the balance between a considerably larger amount which represents the surplus over the fixed reserve on the old policies and the deficit which exists on the more recently issued business. That is to take an entirely suppositious case, instead of having a divisible surplus at \$6,000 at the end of last December there is in all probability 800 or 900 thousand surplus at the credit of the old business and perhaps two or three hundred thousand temporary deficit against the recently acquired business.

Q.—That is getting very close to what I was trying to get from you last night? A.—We were misunderstanding one another then.

Q.—I quite appreciate your statement, but what I understand is a little different from that. Having regard to your experience again, can you give me your idea as to the question I have asked? If you continue long enough, where you have distributed, won't you produce a sum on paper which is in excess of what the actual surplus of this company is? A.—I have no idea, none whatever.

Q.—You have no opinion upon the subject? A.—No.

Q.—For convenience I have had this document prepared for the arbitrators. It contains copies of what I shall now be dealing with. Among the things which you have been asked to do and which you have done, Mr. Papps, is to prepare what is called a profit and loss statement for the year 1905? A.—Yes.

Q.—That statement is framed upon somewhat different lines from any return which you are required by law to make? A.—Yes.

Q.—In what respects? A.—Well, we have in Canada here no such gain and loss or profit and loss exhibit as that at all. I know something of the exhibit required by the American Insurance Department, which is generally referred to as the gain and loss exhibit, and this is very closely allied to that, although there are certain modifications.

Q.—What is the result which is intended to be brought out by this statement? A.—The idea is to show as far as possible the various items

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of profit and loss which will make up the total surplus earned by the company during the year.

Q.—That is to arrive at a net gain or a net loss in respect of the operations of the company during that particular year? A.—Yes, and to show where the losses and gains are.

Q.—The ultimate result is the net gain or net loss and the items entering into that, conducing to that net gain or net loss are disclosed? A.—Yes.

Q.—Now, the first item is, "First year premiums paid in cash adjusted with the outstanding and deferred with the end of the years 1904 and 1905." Will you just state what that means? A.—Yes, as I understand the gain and loss or profit and loss statement, the whole statement must be—

Q.—The first item is, "Loading, first year premiums, \$64,671.54." Then in the larger sheet which I hold, the method of arriving at that is dealt with and is shown to be the difference between two sums? A.—Yes.

Q.—Those sums are what? A.—Well, this printed list simply is, loading first year premiums. It doesn't really say whether those are what are generally known as cash premiums or the revenue premiums for the year. In arriving at this item I put in here a wording which explains my understanding of what was really asked for here.

Q.—You put, "First year premiums paid in cash adjusted with the outstanding and deferred with the end of the years 1904 and 1905?" A.—Yes.

Q.—Now, "Gross \$326,948.00. Net \$262,276.46." The difference being the sum for loading that your honors see at the beginning of the account. Now then what do you refer to as first year premiums paid in cash? A.—I refer there to all premiums paid during the year in cash, which were either the whole or part of first year premiums. For example if a policy was issued in the year 1904 in December say, with a premium payable half yearly, there would be in June, 1905, the first year's premium would fall in the year 1904, the next half year's premium would fall in June, 1905, that portion falling in June, 1905, if paid in cash would come in on that portion.

Q.—Would be part of the first item? A.—Now, supposing that for the same period in December of that year it may be that the policyholders

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premium has not yet reached the Head Office, there would be half that premium as outstanding, there would be the June, 1906, premium which is part of the premium really payable that year but which is held over, not yet payable, and comes in under the word "deferred." We would take off the December, 1904, premium which was outstanding and deferred, presuming it has not been paid.

Q.—You would adjust at both ends of the year? A.—Yes.

Q.—In respect of matters of that sort so as to give you the first year premium receipts, for first year of insurance, received during the calendar year? A.—Yes.

Q.—Well then you have put one sum as gross and another sum as net. What are those figures? A.—The gross refers to the premiums actually charged. The net refers to the premiums calculated according to the mortality table without any loading.

Q.—That is the amount which is necessary to produce the sum insured? A.—Yes.

Q.—And then taking that sum from the gross premiums you get what has been loaded? A.—Yes.

Q.—And that total is \$64,671.54. That seems to be roughly about 20 per cent. of the gross? A.—Yes, it is slightly in excess of that. Oh, I beg your pardon, about 20 per cent. of the gross, yes.

Q.—It is equal exactly, 20 per cent. of the gross? A.—Yes.

(Adjourned to 2 p.m.).

AFTERNOON SESSION.

Resumed at 2 p.m., May 3rd, 1906.

Examination of Mr. Papps continued.

MR. SHEPLEY: The Board has desired that I should ask you a further question with respect to your practice in estimating for the purpose of your literature—see if I understand that correctly—the books that you now are using by way of estimating, the literature that is now being used, been used since 1900, are they or are they not capable of measurement by actual results up to the present time? A.—They are not inasmuch as we have not matured any twenty-year tontine policies.

Q.—You do not, as you tell me, know of your own knowledge how the estimates were arrived at in the books that are now in use? A.—No.

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Q.—You have already pointed out that there has been a large decrease in the estimate? A.—Yes.

Q.—Whether that decrease was arrived at by reference to previous results is something you do not know? A.—I do not know anything about it.

Q.—There is a matter there may be some room for misapprehension about; when we speak of the distribution period, distribution is hardly an accurate word; it ought to be apportioned rather than distribution? A.—I should say this, that if the dividend is apportioned to be immediately distributed then it would be right to call it distribution period.

Q.—Instead of taking the distribution period proper, take the annual apportionment, that of course is not distributed? A.—No.

Q.—That is an apportionment on the recurrence of the birthday of the policy, of what is deemed to be that policy's share of the surplus earned in the last preceding period? A.—Yes. Of course I make no annual apportionment.

Q.—That may be compared perhaps with advantage to the position of shareholders in a company, they are entitled in ordinary cases to actual receipt of their proportion of the year's profits? A.—Yes.

Q.—With your policyholders it is different? A.—Yes.

Q.—Their right to have any advantage in respect to that is deferred till the end of the distribution period? A.—Yes.

Q.—Do you know what the British system in that respect is where they have say five-year periods? A.—In some cases, and perhaps in the majority of cases there is paid what is called an interim bonus in the event of death between the two periods. I am inclined to think that in some, if not the majority of the cases, that does not start until the end of the first quinquennial distribution period; I am not sure on that point.

Q.—That would be different from your system? A.—Yes.

Q.—Supposing I am a policyholder and I have survived the first quinquennial period and live two years longer, and then die, do I get anything in respect of the profits earned during those two years? A.—No, not in our system.

Q.—You say that does exist in the British system in some cases? A.—Yes.

Q.—Supposing the quinquennial period has arrived under the British

system, what is done with the profits earned during the preceding five years? A.—A considerable portion, in fact the largest portion of the surplus, is distributed, as I understand it, a certain portion to the shareholders and a certain portion to the policyholders.

Q.—And the policyholders then finally received something which is not afterwards distributed in the shape of an advantage in respect of those earned profits? A.—That is as I understand it.

Q.—That is not susceptible of alteration to the disadvantage of the policyholders subsequently? A.—No.

Q.—Under your system, supposing a policyholder survives two quinquennial periods, and supposing there are losses in the second, do they disturb what happens by way of profits in the first? A.—What am I to understand by the word losses?

Q.—Supposing there are no profits earned, or supposing instead of profits being earned there are losses? A.—No, they would not directly disturb the first or second declaration of profits.

Q.—If the surplus has been impaired, if you can imagine such a case in a company like this, if the surplus has been impaired it is not there for division, and to that extent the policyholders' interests are affected? A.—Yes.

Q.—Do you know what the legislation introduced in New York was in respect of distribution of surplus? A.—I cannot say that I know, I am under the impression that one recommendation made was—whether it became law or not I do not know—against the issuing of deferred dividend policies.

Q.—That would be another subject; I see the 83rd section of the Insurance Law is amended by section 23 of the legislation introduced so as to read as follows: "83. Distribution of surplus to policyholders. Any domestic life insurance corporation may ascertain at any given time, and from time to time, the proportion of surplus accruing to each policy from the date of the last to the date of the next succeeding premium payment, and may distribute the proportion found to be equitable either in cash in reduction of premium or in reversionary insurance payable with the policy, and upon the same conditions as therein expressed at the next succeeding date of payment, notwithstanding anything in the charter of such corporation to the contrary"—do you recognize that? A.—I have read a good deal in the insurance jour-

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nals, but I could not recognize the fact that I had read that.

Q.—Allowing for the fundamental difference in your system of substituting for what is virtually an annual power a quinquennial power, how would legislation like that in your opinion operate in the case of your company, to the advantage or to the disadvantage of the policyholder? A.—I think I would be inclined to say there that on the whole it would not have a beneficial effect.

Q.—Why? A.—Because I think that in spite of the fact that there are disadvantages in the deferred dividend system I think the one fact that it has caused the business to be kept in force is a distinct advantage to the policyholders as a whole, and particularly to the beneficiaries of those policyholders.

Q.—Then I will eliminate that; I understand what you mean is you consider there are compensatory advantages in respect of the invitation to persistence? A.—Yes.

Q.—Eliminate that for a moment and consider the matter solely with regard to the maintenance unimpaired of a profit earned, having regard to the matter from that aspect, eliminating the other, what would you say? A.—I cannot see at present at any rate—it is rather a new idea to me—I cannot see in any way where the quinquennial distribution would have any advantage over the deferred dividends.

Q.—You are not able to suggest any advantage? A.—No, because if there was such a loss in any quinquennial distribution period that the surplus of the company disappeared entirely and the reserve became impaired, although that impairment might not fall against the profits on the policies, it would have to fall against the sums assured.

Q.—You are going a little further than I asked you to go, I only want you to go to impairment of surplus, that of course is possible from year to year? A.—Yes.

Q.—The surplus of this year may be impaired next year? A.—Yes.

Q.—And the surplus of next year may be impaired the year after? A.—Yes.

Q.—So that you may have at the end of the quinquennial period an impairment of the surplus at the last preceding quinquennial period, that is manifest? A.—It is possible.

Q.—It is manifestly possible? A.—It is manifestly possible.

Q.—Would not an adoption of the method, making the necessary altera-

tions to meet the difference in the period, would not the adoption of this suggested alteration operate in that respect to the benefit of the policyholder? A.—No, I cannot see it.

Q.—Because? A.—Because in any event a loss such as you suggest must come against the policyholders either in one way or the other.

Q.—That is the impairment of surplus must be made good at the expense of the policyholders, if as a fact it exists? A.—That is leaving out of account the shareholders' capital.

Q.—The system upon which you are operating is a very general system both in this country and the United States? A.—The system of deferred dividends.

Q.—Yes? A.—Yes.

Q.—The central idea of that is apportionment coupled with deferring actual division? A.—Yes.

Q.—The antithesis of that would be a system by which there is the actual division instead of the deferring? A.—Yes.

Q.—Let us come back to the profit and loss statement; we had got so far as to see that the arriving at loading by deducting the net from the gross premiums gave you approximately 20 per cent. of the gross premium as the loading. The next item in the account is cost of insurance in the year 1905 on policies on which not more than one premium had been paid, and a difference is made between expected cost and actual cost? A.—Yes; I may say there perhaps in explanation that this wording will not hold for these changed figures, it would be well to read—

Q.—This wording ought to be as in the printed copy? A.—Yes.

Mr. Papps explains words in printed copy to Mr. Shepley.

MR. SHEPLEY: Q.—Then the meaning is the same, it is technically known as cost of insurance, but what it is in fact is the difference between expected death loss and in respect of policies issued in 1905 and the actual death losses? A.—Yes.

Q.—That is policies in respect of which one annual premium had been paid? A.—Yes.

Q.—And those sums you find to be \$32,460 and \$14,650 respectively, making a saving of \$17,810. Those added together give what you call the total margins of first year's revenue premiums? A.—Yes.

Q.—That total margin is \$82,481.52. Then against that you have estimated first year expenses; speaking generally what does that include? A.—That

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would include the first year commissions and such portion of various items; such as office rent, supplies, advertising, travelling expenses, a hundred and one items of that kind that can be properly put.

Q.—Apportionable to the new business? A.—Yes. That of course must be done, it is a matter of opinion how that should be divided; there is no rule fixed for it.

Q.—That in this case is \$327,799.30? A.—Yes.

Q.—In respect to that \$327,799.30 you have only provided in the account up to this time by means of the loading and by means of the saving in death losses \$82,481.54? A.—Yes.

Q.—That is the theory of this account? A.—Yes.

Q.—And that carries into the loss column \$245,317.56? A.—Yes.

Q.—And that, assuming the work to be accurately done, is what you have lost in respect of obtaining the first year insurance? A.—I would not like to use the word lost in that respect.

Q.—Temporarily lost? A.—We have spent that much more.

Q.—You have spent that much more than the money you had provided for that purpose? A.—Yes.

Q.—Then the next item is other than the first year premiums paid in cash, adjusted with the outstanding and deferred at both ends of the year? A.—Yes.

Q.—And in that way, taking it in the same way you take the gross and the net and arrive at the loading there? A.—Yes.

Q.—Gross premiums other than the first year, \$1,374,609.48; net, \$1,082,894.44; leaving for loading \$291,715.04. You take next as against that estimated expenses other than the first year except taxes, repairs and investment expenses amounting to \$128,193.49? A.—Yes.

Q.—That of course is an expense which the loading upon this class of premium ought to bear? A.—Yes.

Q.—And that leaves you a profit representing the difference between what you have provided by way of loading, and what it has cost you of \$163,521.55? A.—Yes.

Q.—Now, assuming that such a state of affairs existed as that the first year's business, the new business, carried itself by way of expense would you have this money available, this \$163,521? A.—Yes.

Q.—Then the cost of insurance in the year 1905 on policies on which

more than one premium had been paid, that is expected and actual? A.—We will have to take the printed statement now.

Q.—Net expected death losses other than in respect of policies issued during 1905, \$361,640, then your saving by reason of favorable mortality is found by deducting from that the actual death losses in that year of policies issued in other years? A.—Yes.

Q.—That amounts to \$238,576.51, and in that way you have made a further gain of \$123,063.49? A.—Yes.

Q.—That gain is attributable of course to the policies which were written in previous years? A.—Yes.

Q.—Then the fourth item is annuity payments expected to be made in the year, \$5,912.10; reserves expected to be released by death by annuitants \$1,008.54, the difference being a net amount of \$4,903.56? A.—That is right.

Q.—When you came to actually adjust that matter upon the facts as they actually occurred you found that the annuity payments were \$6,321.56, and that you only had reserves released to the extent of \$59.49, making \$6,262.07 as the actual results of those two subjects? A.—Yes.

Q.—That gave you then as between your expectation and your result a loss of \$1,358.51? A.—Yes.

Q.—You received during the year certain interests and dividends and rents, that would be income from investments? A.—Yes.

Q.—And that you adjust in the same way at the beginning and end of the year? A.—Yes.

Q.—That is \$297,082.13 as against which you have taxes, repairs and investment expenses of \$26,502.77, and dividends to shareholders \$24,000, making a total of \$50,502.77, which, deducted from the revenue leaves a balance of \$246,579.36. Then you have to put out moneys to maintain the reserve? A.—Yes.

Q.—And how much, \$234,790? A.—Yes.

Q.—As a matter of actuary's practice, that is supposed to come out of the annual revenue? A.—Yes.

Q.—Is that theoretically correct? A.—It is theoretically correct, that that amount should come out of the interest income, is that the question?

Q.—Yes? A.—Yes sir.

Q.—Instead of out of the premiums? A.—Yes; that is not the full increase in the reserve, but only the portion attributable to interest.

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Q.—What do you mean by that? A.—I will try to explain it in this way. Take the reserve say on any particular policy at the end of one year; we add to that the net premium; that then immediately gives us the reserve at the beginning of the next policy year. That amount is then increased at interest for a year. Then deducting from that the expected cost of insurance according to our tables gives us the reserve at the end of the year, so that you will see that the interest is a distinct factor in building up that reserve, just as the addition of the premium at the end of one year was necessary to bring it up to the beginning of the next.

Q.—That is why that is a proper source out of which to take the interest required to maintain the reserve; then that leaves you with a surplus of final revenue on that class of revenue of \$11,789.36? A.—Yes.

Q.—Then the next item I find is profits from sales or maturity? A.—That is concerned purely with investments.

Q.—That is where you have taken over an investment or where it has matured and you have realized it? A.—Yes.

Q.—And you have assembled the profits during the year upon turn-overs of realization? A.—That is as I understand it, I am not responsible for that item, I got that from the Investment Department.

Q.—That is \$21,456.22? A.—Yes.

Q.—You have deducted from that the losses where you made a sale at a loss, or where at maturity you did not realize what was in the ledger against it, those losses being \$5,847.71, leaving a net gain on that of \$15,610.51? A.—Yes. I might say I was given to understand that the losses there include in some cases charges, solicitors' charges and that sort of thing, which had been taken credit for in the previous year as a profit, but the account had not come in, and apparently there was no notification of it, but that is a small portion.

Q.—Increased market value, you get that from the Investment Department? A.—Yes, although that's given in the blue book.

Q.—That \$64,383.93 means where there is a market value on the date the statement is made up for the Government, that market value is affixed to the security instead of the cost to the company of the particular asset? A.—I believe that is right.

Q.—That is of course an item which does not at all swell the actual thing

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which the company has, the company has say \$100,000 of municipal debentures? A.—Yes.

Q.—That is, municipal debentures have not for the purpose of that item changed their form at all? A.—No.

Q.—That is just the investment it was before, but it happened to-day to be worth more than it was when it was purchased, and what it is worth to-day is put in instead of what it is purchased at? A.—Yes.

Q.—I do not mean to say that municipal debentures themselves have been written up or written down? A.—That is foreign to my department, the question of investment.

MR. McLAUGHLIN: So far as securities like stocks with various rates of interest, they may have increased your dividend in that way, like the Ontario Bank—

MR. SHEPLEY: At all events that is what it is, the same security is held, but it happens to be more valuable on the market to-day than it was on the day it was purchased? A.—Yes.

Q.—That is \$64,383.93, that is put as a profit; there is still a further item of profit, reserves released by surrender and lapse, that is where there has been the surrender or lapsing of a policy, and it has ceased to be necessary any longer to maintain the reserve in respect of it? A.—Yes.

Q.—That is \$127,578.35; against that must be set the surrender value which has been paid out of it to the policyholder? A.—Yes.

Q.—That amounts to \$93,349.81, leaving a margin say of \$34,228.54, your total gains, which are first on old premiums, secondly saving in respect of old premiums on favorable mortality, third, current revenue, fourth, profit on securities sold or realized, fifth, increase of market values, and sixth, margins in surrenders and lapses? A.—Yes.

Q.—And those total \$412,597.38? A.—Yes.

Q.—The losses are first in respect of the first year's business, the new business, \$245,317.76, and failure to come up to expectation in the matter of annuities, \$1,358.51, or a total of losses of \$246,676.27, making the net profit on the year's operations of \$165,921.11—

MR. McLAUGHLIN: The word losses might be misleading.

MR. SHEPLEY: I have stated what the items were; they are falling under the column "losses."

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Q.—You have proved your work, so to speak, by taking the divisible surplus at the end of 1904, the divisible surplus at the end of the year 1905, and ascertaining what gain there has been there, that gain you make \$135,043.52. Then cash and premium deductions during 1905 to policyholders \$29,435.44, and increase in profit due and unpaid at the end of the year over what was due and unpaid at the end of the previous year, \$1,442.15, which three sums make the same total as the difference between the profit column and the loss column? A.—Yes.

Q.—And in that way you have proved your work? A.—Yes.

Q.—This shows a very favorable result comparatively as to business written prior to 1905, and as between that business and business written during 1905. Supposing at the end of 1905 you had chosen to divide among policyholders all that they were entitled to, all that you had on hand by way of profits, you have \$245,000 less than you would have had but for the expense attendant upon new business? A.—Yes.

Q.—Does that or does that not mean that for that year at least the old policyholders were at the expense of the new business, the ultimate balance of expense of the new business? A.—As a whole they were.

Q.—And if the new business had paid its way manifestly you might, if you had chosen, have taken \$412,000 practically to add to the funds available instead of the sum of \$165,000? A.—Yes. I think I should make a statement there, that if a company such as our own was dividing profits annually we would be certainly absolutely unable, and would not attempt to write anything like the volume of new business we are writing now.

Q.—It is also manifest that the cost of the first year's business exceeded the gross premium received in respect of it? A.—Yes. It is practically the same item.

Q.—The gross premiums received were \$326,948, and the expenses in respect of getting that in were \$327,799.30 as shown by the account; does not that show that if you had had no death losses on new business at all, and had not had to put up the reserve at all, that business was done at an immediate loss? A.—I think I should raise some objection to the

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word loss, I look at it we are buying the business at a certain price.

Q.—I put it at an immediate apparent loss? A.—Yes.

Q.—Of course this demonstrates that the amount provided for loading in respect of the first year's premium is entirely inadequate? A.—For the first year's expenses?

Q.—Yes? A.—Yes.

Q.—If you could have obtained that first year's insurance, that new business at no greater an expenditure than the amount provided by way of the loading you would have had of course very handsome results for the old policyholder on that year's business, immediately? A.—No, I would say we would have had a large amount to accumulate for the benefit of that year's business itself.

Q.—And were not the old policyholders entitled to share in the profits of that year along with the new policyholders? A.—Yes, you take the word profits.

Q.—Then if you add to the loading the saving between expected and actual mortality in respect of the first year of new business amounting to \$17,810, you still fall very far short of reaching reimbursement of what it has cost? A.—Yes.

Q.—Do you know of any company carrying on business in this country or in the United States, that with either or both of these sums available is able to overtake the cost of new business out of new business sources like those two items? A.—No, I do not know of a single company, and I qualify that in this way, unless it would be possible that some small company doing business in a certain class and perhaps getting its members through a certain connection, as for example the company—take the Presbyterian Ministers' Fund, I could understand a company like that not having to employ agents, being able to do so, not otherwise.

Q.—Do you know of any English company that does it? A.—No.

Q.—Of none at all? A.—No, I do not know of any.

Q.—The other pages, first you divide the expense items among certain subject matters? A.—Yes.

Q.—And the other is a statement of the securities in respect of which there was a profit on the turn-over, and the securities in respect of which there was a loss on the turn-over? A.—Yes.

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Q.—Is that immediate outlay in excess of receipts ever overtaken by the company? A.—I should say yes, certainly.

Q.—When? A.—As that 1905 business continued in force the margin which is shown there, for example in the loading of the renewal premiums will wipe that temporary deficit.

Q.—In practice are you able to say when that happens, in the case of your company—I do not mean you to put it with absolute mathematical accuracy—in how many years may you expect to overtake that immediate excess of outlay over receipts? A.—That would be certainly overtaken in the second year.

Q.—Are you leaving out of question their having to put up reserves? A.—Yes.

Q.—You say without? A.—When the second premium is paid I think in every case that would be safe enough.

Q.—When the second premium is paid you have overtaken all that? A.—Yes, I am taking the whole of the 1905 business.

Q.—That is assuming that business all continues, supposing 't does not all continue? A.—I think without any doubt a sufficient portion of that business would continue so that the company would be sufficiently square at the end of the second year.

Q.—This table B is annexed to the answer you have given to us under the heading Policies? A.—Yes.

Q.—We will see what the general idea of it is, "Beginning of the year," is the first column, "Funds plus premium," is the second column—what does that mean? A.—In the first year this is simply the premium, but this column eight is the fund to get next year, here we add the premiums to this fund.

Q.—Then the next column is expense, that is the expense of doing that business? A.—Yes, on the assumption underlying this whole thing.

Q.—Then the fourth column strikes a balance between the fund plus the premium and the expense? A.—Yes.

Q.—Interest, what is that? A.—That is interest on the balance of the fund.

Q.—That is the balance of the fund after deducting— A.—After deducting expense.

Q.—You add the interest to the balance to get what falls under the column total? A.—Yes.

Q.—Next is claims? A.—That is an estimated amount of the claims taking into account the selection of the lives

by the medical examiners, that is the amount here is supposed to be the net cost which the company will sustain.

Q.—That is what you will have to pay out for death losses in respect of that insurance? A.—Yes, provided we experience a favorable mortality, I have taken those costs as low to eliminate that feature.

Q.—The next is the fund, that you say is what is produced by adding to the total balance with interest the amount that may be expected with favorable mortality in the shape of claims? A.—Deducting.

Q.—But they are added together? A.—Only because this is a minus, in the other columns they are deducted.

Q.—That is right; the ninth column is cash value, and there is not any losses at the end of the first year or the end of the second year? A.—No.

Q.—And the saving is put in the last column? A.—Yes.

Q.—At the end of the year what is the position of matters with respect to a policy on a life at 25 for a thousand dollars where the premium is \$21.30, and where the commissions are as they usually are in your company? A.—That is a whole life policy, it means there is a loss on that particular policy, or as I said a minute ago an excess cost of getting it of \$13.36.

Q.—That is you have a premium of \$21.30, and you have spent \$13.36 more than that whole premium? A.—Yes, on these assumptions.

Q.—And have you provided for reserve? A.—No.

MR. McLAUGHLIN: Does the extra expenses cover the death losses? A.—That covers everything.

MR. SHEPLEY: That covers everything except the reserves? A.—Yes.

Q.—Your premium is \$21.30? A.—Yes.

Q.—The expense is \$31.34? A.—Yes.

Q.—The balance there is a minus quantity of \$10.04; the interest upon that is 47 cents, which is also a minus quantity or a total of \$10.51 minus? A.—Yes.

Q.—Then the claims which you then put on the cost of insurance, \$2.85; if the \$10.51 had been a plus quantity you would have subtracted that? A.—Yes, of course it is subtracted in any event, but you have to add them together.

Q.—A sign minus is before both of them, they give you a minus? A.—Yes.

Q.—Then under the head Fund, subtracting \$2.85 plus from the \$10.51

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minus you have minus \$13.36? A.—Yes.

Q.—And that is the loss on the policy at the end of the year? A.—Yes.

Q.—Then the second year you commence with the fund plus the premium, that is you get a premium of \$21.30 for the second year. A.—First you have to take that \$13.36.

Q.—And that starts you with fund plus premium \$7.94? A.—Yes.

Q.—Following that out during the year in the same way, and still without providing for reserve you have minus quantity at the end of the second year of 79 cents? A.—Yes, on that.

Q.—At the end of the third year another element comes in, and that is cash value? A.—Yes.

Q.—And at the end of the third year, having regard to the fact that the cash value has to be provided for you still have minus \$5.21? A.—Yes, but I think I will have to explain here that in arriving at the amount of expense to assets against these various plans and ages for each year I did not attempt to make any refinings here, and I think without any doubt there is too much expense thrown against the early ages at the expense of the older ones. I was looking more for the general results of all ages combined so that I would not attempt to say for a minute that those figures would actually represent things for each individual age.

Q.—Have you tried to make them as accurate as you could in the time you had at your disposal? A.—Yes, but I could not make those necessary refinings at the time at my disposal.

Q.—You do not doubt at all that when you introduce the cash value, which is a comparatively large sum on that single year's operation that you will in any event at the end of the third year get a minus quantity? A.—I would not say; I should think we might come out square there under the proper proportion of expense.

Q.—Take it at the age of 35, the premium there is larger, the commissions are the same, the rate of commission is the same, treating that policy in the same way at the end of the first year you are behind \$11.72? A.—Yes.

Q.—At the end of the second year you are ahead \$7.43? A.—Yes.

Q.—At the end of the third year by the introduction of the cash value you are down again to minus \$1.16, and at 45 the result is more favorable because while you fall off between the second

and third year you still have enough to surmount the cash value? A.—Yes, the increase in the reserve is sufficient for that.

Q.—You have at the end of the third year in a life of 35, still a net deficit? A.—In this illustration we have.

Q.—And at the end of the fourth year you still have a net deficit, taking the whole? A.—No, that is a surplus.

Q.—Yes, that it quite right; none of these takes into account any provision for reserve, you have told me? A.—No, this is showing actual funds. The idea of that was not to have anything in connection with the reserve at all, but it was to try to answer that particular question with regard to the lapse of policies.

Q.—Go on to H, table C, in that you have treated twenty payment life policy at the ages of 25, 35 and 45 for a thousand dollars? A.—Yes; you will see on that policy there is no loss except at the end of the first year.

Q.—On that class of policy you do not show the loss except the end of the first year; then on a 20 year endowment, table I, you do not show a loss even at the end of the first year? A.—No; I might say that that would lead me to suppose if I had not seen this before that there had been an unduly large expense thrown against the whole life.

Q.—Table E is an interesting table, what is that intended to show? A.—It shows here, take the whole life policy—I take the 1905 lapsed policies of the company, on which not more than five premiums were paid, in this first column I have shown a number of premiums paid, in the next column I have shown the amount lapsed after one premium was paid, and here I may say that where a fractional premium was paid I assumed a certain portion went off at the end of the two interval years so as to avoid fractions. In the next column there is a saving per thousand carried forward from this other table. The next column shows a loss per thousand carried forward from the same table. This shows the total saving, and this the total loss on these actual lapses. The next column does not really bear any intimate connection with this, but it is simply put in there for reference to show the proportion of all policies lapsing in the first five years, lapsing in each year of the five. In connection with that table I might put in that same word of warning, that that probably over-

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states the loss on this particular plan of insurance, and this age.

Q.—At the end of the first year, that is after one premium had been paid, as a matter of actual observation and experience you had 78.22 per cent. of all the lapses in five years occurring? A.—Yes.

Q.—That is you start out a number of policies this year all running concurrently, of such of those policies as lapsed in the five years 78.22 will lapse after the payment of only one premium? A.—That is practically the result.

Q.—After the payment of the second premium 8.89 per cent. will lapse? A.—Yes.

Q.—After the payment of the third premium 1.23 per cent. will lapse? A.—Yes.

Q.—After the payment of the fourth premium 4.60 per cent? A.—Yes.

Q.—After the payment of the fifth premium 7.06 per cent? A.—Yes. I might say here of course that the amounts are so small that these percentages for this particular section and group of ages hardly give sufficient data to go on; that will show up more clearly in the summary.

Q.—Of course approximately the great loss by virtue of lapse is in respect of lapses after the payment of only one premium? A.—Yes.

Q.—And the proportions here which you say may not be entirely accurate are a loss on five years lapses of \$863.95 as against a saving of \$27.94? A.—Yes. I may say these are lapses occurring in one year, but in policies issued in five years, they are not all policies of the same year of issue.

Q.—What is the second group? A.—The first group is ages 20 to 29, and for these figures I have used the figures from this table as for age 25. The next group shows ages 30 to 39, and for that I have used the figures shown in the first table for age 35, similarly for group 40 to 49, I have taken 45.

Q.—Let us take the results: where you are taking ages 30 to 39 you find 78.26 per cent. of the lapses occur after the payment of one premium? A.—Yes.

Q.—6.52 after the payment of two? A.—Yes.

Q.—7.61 after the payment of three? A.—Yes.

Q.—5.43 after the payment of four? A.—Yes.

Q.—And 2.18 after the payment of five? A.—Yes.

Q.—Your aggregate loss in respect

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to lapses of that age in the five years is \$425.98 and your aggregate saving is \$41.42? A.—Yes.

Q.—Then at the ages of 40 to 49, percentage after one premium, \$78.63, and then you skip the second? A.—There did not happen to be any.

Q.—After the payment of the third premium 8.55 per cent., after the payment of the fifth premium 12.82? A.—Yes.

Q.—There seem to have been no transactions— A.—There were no lapsed policies after either the second or fourth premiums paid in that year and at those ages.

Q.—Your summary is a total loss in respect of lapses during the five years of \$1,468.41, as against aggregate saving of \$162.65, making a net aggregate loss of \$1,305.76? A.—Yes, that is for the whole life policies.

Q.—That sheet only deals with the whole life; similarly you have dealt with the 20 payment life upon the next sheet? A.—Yes.

Q.—And the percentages for the three ages after the payment of one premium respectively are 74.06, 66.67, 75.27, and your aggregate loss is \$2,008.04, your aggregate saving \$675.17, or net aggregate loss of \$1,403.87? A.—Yes.

Q.—And this is estimated result? A.—The estimated result of lapses, but the exact amount of the lapses are given.

Q.—Taking the 20 year endowment policies and treating them as to lapses in a similar fashion, you have lapsing after one premium paid at the earlier age 81.63, at the middle age 72.73, at the latter age 74.19? A.—Yes.

Q.—And there you get no ultimate aggregate loss at all? A.—No.

Q.—But aggregate saving of \$875.73? A.—Yes.

Q.—The next table is a summary of the three preceding tables, is that right? A.—Yes. This might be interesting because in this table we show the proportion lapsing each year grouped together, 20 payment life, 20 year endowment of all ages, and in the final column all these plans so that this percentage gives a fair average.

Q.—We will take that; the result of observing all kinds of classes at all ages is that you get a total percentage of lapses after one premium paid on all plans of 75.48? A.—75.48 per cent. of all lapses within the four years.

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Q.—And your aggregate net loss in respect of all these lapses is \$1,904.90? A.—Yes.

Q.—Then you have given a statement of the amount of the lapses? A.—That is the amount of the insurance.

Q.—The amount of the insurance lapsing, we need not trouble about that just at the moment. Of course the apparent loss by reason of the ratio of expense at the end of the first year or after one premium is paid is greater than any other time? A.—Yes.

Q.—Not only then have you the greatest loss, but you have the greatest number of lapses then? A.—Yes.

Q.—You have not taken into consideration the question of the reserve, I want you to do that now, what is this book? A.—This book shows the reserves according to the table based on what is known as Hm. mortality and $3\frac{1}{2}$ per cent. interest.

Q.—I see there are two values here, mean values, and terminal values? A.—Yes.

Q.—What is the difference between mean values and terminal values? A.—In this first column that mean value is found by taking the mean and the net premium that is reserved at the beginning of the first year, and the amount shown in the table of terminal values as the reserve at the end of the first year.

Q.—Then that is a reserve calculated upon the middle of the year? A.—I can perhaps explain it better this way; this mean reserve is a reserve at the end of any 31st December on business supposed to be issued on the 1st July in some particular year.

Q.—And the other is the reserve— A.—The reserve at the end of any particular policy year.

Q.—And which of those two is the larger? A.—The mean reserve.

Q.—Why? A.—I may say when I said this reserve was larger, it is larger on this particular plan at the years we are looking at. When you take the reserve at the end of any year and add the premium to it you get the reserve at the beginning of the next year. If the reserve at the beginning of any year is larger than the reserve at the end of the year then the mean reserve will be larger, on some plans that will not be the case.

Q.—Go back to your table B, again, take at the end of every year what you have available, and then let me know what you do by way of putting your reserve according to this plan,

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take the age 8.35 at the end of the first year?

Q.—Reserve \$12.82.

Q.—And your minus \$11.72 to do that with? A.—Yes.

Q.—Take the end of the second year? A.—\$25.88.

Q.—And you have only \$7.43 to do that? A.—Yes.

Q.—At the end of the third year? A.—\$39.18.

Q.—What have you got to do it with, \$23.84? A.—Yes, at the end of the fourth year the reserve is \$52.57, and the fund \$43.45.

Q.—At the end of the fifth year? A.—\$66.68, and the fund \$63.51.

Q.—You do not make good your reserve and these expenses at the end of the fifth year? A.—Not on this calculation.

Q.—This you said was a fair calculation? A.—I explained that on the whole life plan there was probably on this simple method of distributing expense too much thrown against the whole life policies.

Q.—Take the twenty payment life? A.—The reserve the first year is \$20.61, and against it minus \$6.47, the reserve at the end of the second year \$41.88, the fund \$21.97; the third year \$63.73 reserve, the fund \$51.03; the fourth year reserve \$86.26, the fund \$81.02; the fifth year reserve \$109.54, fund \$110.06.

Q.—On the twenty payment life you caught up at the end of the fifth year? A.—Yes.

Q.—Then the Twenty Year endowment? A.—The end of the first year, reserve \$33.40, fund \$1.90. Second year, reserve \$67.95, Fund \$44.24. Third Year Reserve \$103.73, Fund \$87.96. Fourth year Reserve \$140.83, Fund \$133.67. Fifth year Reserve \$179.37, Fund \$181.89.

Q.—You have just caught up to it at the end of the fifth year on that plan of insurance? A.—Yes.

Q.—I do not want to go through the thing in detail, but we can by taking the tables you have given us and this net premium table find out for ourselves how the fund at the end of each year on all these ages compares with the requirements as to reserves? A.—Yes; I of course must say this calculation was done roughly, I do not mean to say it is absolutely accurate in any particular feature, it just gives things in a general way; in my opinion it gives the general results.

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Q.—It gives general results with sufficient particularity for us to test it very fairly? A.—Yes.

Q.—On what assumption or basis are reserve computed at the end of the calendar year as to the age of the policies with respect to the anniversary of the policy? A.—The age is calculated according to the age at which the premium is payable.

Q.—That is not exactly what I want, do you compute the reserve at the end of the year on the assumption that all the policies are on the average six months past the last anniversary? A.—Yes; I thought you meant the age of the policy holders.

Q.—No, the age of the policy itself. Look at this table, do you know that document? A.—This was shown to me.

Q.—You have seen it before? A.—I saw it enough to make one or two changes in here, but I have not examined it.

Q.—Assume for the moment it is correct? A.—I have no doubt it is.

Q.—Tell us what it shows? A.—This shows the funds on December 31st for life policies issued within five years, and the reserves by different standards. This I presume is made up from those preliminary sheets. I would understand here that this meant the result of one policy issued in the year 1905 at the end of that year. There was a preliminary table leading up to this I believe.

Q.—This is the table you saw? A.—Yes. I might explain here that this differs from my statement in this respect, the interest is interest for half a year only; the claim is half the amount. My statement as I put it briefly was made up on the basis of policy years; this statement which you hand me is I believe made up on the assumption that every policy is issued on the 1st of July and made up to the end of the calendar year.

Q.—That is made up then upon the same principle upon which your reserves are computed? A.—Yes. You understand this was for a different purpose from this table of mine.

Q.—Go on then? A.—The first line shows the amount of the fund accumulated on policy issued in 1905 at the 31st December of that year. The next line shows the amount of the fund accumulated at the end of the year 1905 on a policy supposed to be issued first July 1904 and so on.

Q.—And so on back for five years?

A.—Yes. This next table shows the mean reserves according to the Hm. 3½ per cent. table. The next column shows the reserve according to Mr. Dawson's select and ultimate tables. The next column shows the reserves according to select and ultimate principle but using the new tables of the British Companies experience.

Q.—The third column then is the present Canadian standard? A.—Yes.

Q.—Just contrast what is required by the present standard of the accumulated fund in some of these instances? A.—That is practically what we have seen, I think, with a few modifications in these other sheets, and on the whole the present standard is in excess of what these sheets show is accumulated.

Q.—I am going to ask you a question which perhaps is a question of some delicacy; is it your opinion as an Actuary that it is necessary to maintain the present Government standard of reserves in respect of the early years of Insurance? A.—I think that I will have to refer to the statement I made this morning, that I have always been taught to consider the reserves of the Company as being maintained as applicable to the policies as a whole rather than broken up and applicable to them individually.

Q.—You told me this morning that those computations of reserve made upon the select basis have as a fundamental difference from the ordinary standard of reserve an allowance made by reason of the recent selection of the particular life in the early years of the policy, that was right? A.—The select reserve.

Q.—Yes? A.—No, just the opposite; as a matter of fact reserves calculated on what are known as select tables will be higher reserves than the present Government standard.

Q.—You mean ultimately? A.—No, I mean reserves calculated by the select mortality tables will on the whole show higher values than the reserves according to the present Government standard.

Q.—Let us look at that as it is here, here are two reserves in the early years of Insurance, according to these select tables? A.—No sir, that is not correct, those are not reserves according to select tables, they are reserves calculated by a combination of select tables and ultimate tables.

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Q.—Then I must modify my question in that respect; leave the ultimate table out of question for the moment, is the select table based upon what I have been asking you about? A.—Yes.

Q.—Does the ultimate table take that into consideration? A.—It leaves it out of consideration.

Q.—If you combine the two combined table does take that into consideration? A.—I am afraid I will have to explain that a little more fully. The select table takes into account the fact that the lives have been selected and just passed the doctors. The ultimate table is arrived at throwing out of account entirely the date referring to the early years of Insurance, but where you take the whole thing in together it gives what we call a mixed table, they are all lumped together.

Q.—Are they lumped together in the mixed table eliminating the principle of selection? A.—No sir, because the mixed table includes those lives that have just passed the medical examiners as well as those lives that have been insured so long that the medical examination has worn off. The ultimate table is the table which throws out of account entirely the lives we select.

Q.—Then the select and ultimate is a combination of the two? A.—Of the two tables.

Q.—Does the select and ultimate table bringing in as it does some features of the select table, to some extent recognize that principle of selection or does it eliminate it altogether, the resultant mixed table? A.—The result of using the select and ultimate table in practice is to eliminate that fact, because if you take the mortality tables based on select tables throughout such tables will produce a higher reserve than that.

Q.—Tell me what that \$3.58 is? A.—It is arrived at in this way—

Q.—What is it in the first place? A.—It is reserve on policy six months in force according to this method of select and ultimate tables.

Q.—And is that the sum which has to be set apart to provide for the ultimate payment of the policies? A.—Yes, according to that method.

Q.—It is \$3.58? A.—Yes.

Q.—According to the other select and ultimate table only \$1.38 is set apart? A.—Yes.

Q.—Then come back to the standard table, is the \$12.19 which I see

there is a sum which according to the standard table must be set apart? A.—Yes.

Q.—\$12.19 is more than \$3.58 of course? A.—Yes.

Q.—At the end of the first year according to this select and ultimate table you only provide for a reserve of \$3.58 as against under that standard, a reserve of \$12.19? A.—Yes, that is right.

Q.—Then I do not understand what you mean by saying the reserves are higher? A.—I said if you use select tables throughout instead of using the combination with the ultimate it would produce in nearly every case a higher reserve than this.

Q.—I am speaking of the figures before us and only the first five years of the policy? A.—Yes.

Q.—Being the period in the policy's life during which we have seen the initial cost is the great problem to be solved? A.—Yes.

Q.—Is the maintenance of the Government standard, the \$12.19, \$21.53, \$31.12, \$46.88, \$50.88, necessary in your view to the soundness of the policy? A.—I will say this, I hardly know how to put that—

Q.—Take your time because it is a question of very considerable importance? A.—I think I will have to say this that the maintenance of the Government Reserve for all the policies I consider is desirable, but as I intimated this morning I do not think it is absolutely necessary that that particular amount of reserve should be held for every policy—

Q.—Do you admit the value of recent selection in connection with the lives insured? A.—I admit the value of it, most certainly.

Q.—Does the Government standard pay any attention to that fact of recent selection? A.—No.

Q.—Then there is a valuable factor in the problem which the Government standard ignores? A.—Yes.

Q.—If the system is adopted which attaches due and not undue importance to that valuable factor won't the result be a satisfactory reserve? A.—I think I will have to mention before answering that, that the result of taking that into account will be to increase the reserve.

Q.—I am speaking of the early first years immediately after selection? A.—Yes sir, I am too. If we take into account that feature it will increase instead of diminish the reserve in the early years.

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Q.—You have got away from me again? A.—This table, select and ultimate, does not take into account alone the effect of selection, because if so all the factors which go to make up that reserve will be taken from a select table.

Q.—Does this American Experience Select and Ultimate, New York, Standard, in the early years of insurance recognize the value to any degree of the factor we are speaking about?—surely it does, otherwise how do you get \$3.58 for the first year as against the Government standard? A.—That is the result of using it. Let me explain that.

Q.—By all means? A.—I might refer to the explanation I gave in my early evidence in regard to reserve. The actual way we find the reserve is to take the present value of the insurance, subtract from that the present value of the future net premiums payable. In a strictly select table valuation the value of the assurance on the one hand and the annuity value used in valuing the net premiums is taken from the select table, and in this formula the net premium is taken from an ultimate table, and as the ultimate table shows a higher net premium than does the select table, credit is taken in this formula for a higher net premium than the true select net premium. To that extent this formula provides rather for the cost of getting new business than it does for the effect of selection, for if the effect of selection were taken into account in theory at least a table should be used which would bring out a higher reserve than this.

Q.—What is the \$3.58, is that the amount that is to be laid apart? A.—It is when you take credit for more than the select net premium.

Q.—When you take credit for more than the select net premium, do you mean by that that these two standards, I call them standards, are based upon different premium rates? A.—Yes.

Q.—And which is the higher premium rate? A.—I prefer just to change that a little, and take a select table if we have one handy, based on the same mortality tables and same data, and then the net premium in this formula would be a higher net premium than in this net formula.

Q.—To what extent would it be higher? A.—(Refers to tables.) I can make the O. M. experience there.

If we have here the whole life policy. The net premium entering into it—a valuation by a select table would be \$14.44, the net premium entering into the valuation by this select and ultimate would be a premium of \$15.03. The point I was trying to bring out was this—

Q.—Tell me how do those compare with the standard premium on the Hm.? A.—This is a little less.

Q.—They are both less? A.—Both less. Of course this is made up on an entirely different basis of lives than the O. M. I am comparing the tables even on the same body of lives, and we should compare that with a corresponding table to the Hm. based on this data. Such a premium would be \$14.16, that is the premium which should be taken credit for in a pure select net premium valuation would be \$14.44.

Q.—As against \$14.16? A.—In the next table, that is 28 cents higher. The premium taken credit for by the company in the select and ultimate table would be \$15.03, which is 59 cents higher than the select, and 87 cents a thousand higher than the mixed table. The difference, then, in the reserve is made up by taking the present value of the few cents' difference for the whole of the rest of life at age 25.

Q.—That is the way that reserve is made up? A.—Yes.

Q.—Then does it make any difference, does it prevent the principle of which we have been speaking from ever being considered as entering into the solution of the question, the fact that it is complicated by a change in the amount of the premium rate? A.—Yes, the present value of the insurance and the factor used to value those net premiums takes into account the fact of the lives being selected, the net premium taken credit for in the formula entirely disregards that.

Q.—Disregards that element? A.—Yes.

Q.—Then if you come to take an account of the policy upon the footing of the Hm. table or the corresponding table which is the lower of the two, to take an account of the policy upon the other plan providing for reserves according to the figures that are here before you in both cases, what do you have as alleviating the expense during the earlier period of the insurance? A.—You have the

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present value of the difference between the two net premiums and it actually works out of course as shown in this table.

Q.—That works out as shown here?

A.—Yes.

Q.—Then it has been largely a question of terminology again. I was using the wrong terminology and did not get what you meant. A.—I want to bring out the point of the difference between the selected and ultimate, and the strict selected.

Q.—Now then let us return to the question which I started with, because this is only a detail of the general question. What I want to get at is whether or not the introduction of the system that we have been speaking about, replacing the present system which requires a high reserve in the yearly life of the policy, whether that would at all affect the ability of the Insurance Company to carry out its contract? A.—No, I would consider that the adoption of that table at the present interest rates would be quite sufficient, because I consider that our present reserve itself gives us quite a good margin.

Q.—Would that also assist in doing away with the inequality resulting from the great expense ratio in new insurance, in practice I mean? A.—Well in practice I will say this that as my plan shows, the effect of the expense of the first year comes against the policies issued that year and that year only and to that extent the reserve held would not enter into the account at all.

Q.—I thought we had got past that. You have I think gone with me to the extent that upon the figures which we have examined that expense ratio is an important problem during the first five years at all events, having regard to the reserve you have to maintain and so on. I do not want you to get away from that unless you think you ought to. A.—I don't want to be misunderstood. As I have tried to show in that system we were looking at this morning, the reserve itself does not come into account at all until we wish to distribute profits. I would like to say this that I would consider that coming at the end of five years for example on a five year distribution policy that I think this selected and ultimate method would be a very useful method at that time to determine what would be a good reserve to hold and use this particular method in that way to distribute

the profits, I think that would be a very good use to make of that particular method.

Q.—If you will look at this other perhaps this will help us a little. This is a paper marked "N." Have you seen that before? A.—No not to my knowledge.

Q.—This is headed, "Margins, selected and ultimate, O.M. 3½, Manufacturers' Life rate." Then the various ages, premium, net premium. O.M. ultimate, then the loading, selected and ultimate, margin. Total for expenses. Percentage for premium. Assuming this to be correctly extracted, tell me what its significance is? A.—I would take it that this 627 is the amount of the loading in our present rate of premium over and above the ultimate table net premium. This 1229 I take it is the difference between the ordinary reserve calculated by a mixed table and the reserve by this selected and ultimate method. The two here are added together, showing a total of \$18.56.

Q.—Available for expenses? A.—For expenses.

Q.—Which is 87 per cent. of the total premium? A.—Yes.

Q.—In other words by adopting this modification, that is at only one age, you get at the age 25, instead of what you now have available, you get 87 per cent. of the whole premium available for expenses? A.—Yes.

Q.—I would like your honors to see that. I think we will put these documents together and make an Exhibit of them. (Exhibit 72.) Comparing the amount available for expenses under the plan we have been speaking about, with the amount actually expended in the Manufacturers', you do not in the first year have enough even on that plan to pay the total expense? A.—No, not the way that is made up.

Q.—You have a total for expense of \$18.56, while the total expense was \$31.34. Do you know about the legislation in New York on that subject? A.—I believe there has been some legislation in regard to limitation of expenses, but I am not familiar with the exact terms, although I have a general idea of it.

Q.—This is section 33 of the new law which adds to the old law a section to be known as section 97, to read as follows: "97. Limitation of expenses. No domestic Life Insurance Corporation shall in any calendar year after the year 1906, expend or become liable for or permit any person, firm

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or corporation to expend on its behalf or under any agreement with it, first, for commissions on first year premiums: second, for compensation not paid by commission for services in obtaining new insurance, exclusive of salaries paid in good faith for agency supervision either at the Home Office or at branch offices; Third, for medical examinations and acceptances of proposed risks; and fourth, for advances to agents, an amount exceeding in the aggregate the total loading upon the premiums for the first year of insurance received in said calendar year, calculated on the basis of the American experience table of mortality, with interest at the rate of $3\frac{1}{2}$ per cent. per annum on the present value of the estimated mortality gains for the first five years of insurance on the policies for which the first premium or installment thereof has been received during the said calendar year, as ascertained by the selected and ultimate method of valuation as provided in section 34 of this chapter." Now if you had in this country a law of that kind, applied to a method such as the method we have been discussing, you would cure the evil under which companies are at present labouring in that respect? A.—I am more inclined to think you would very seriously cut down the amount of new business which a company could write sir.

Q.—I will come to that too. New business is a bugbear that is frightening all the insurance companies; they must have new business. Now if you will confine yourself to answering just the question I put to you I will let you speak about the new insurance afterwards if you want to. If that law were passed here and were applied to a method such as the method we have been discussing, you would not have any further difficulty of course in respect of the excessive first cost of new insurance would you? A.—I hardly know what to say on the word "difficulty."

Q.—You would not have an excessive first cost? A.—No you would not.

Q.—You would get rid of that. Your first answer indicated that you thought there might be some compensatory disadvantage in respect of curtaining new business. You may state what you mean by that? A.—I mean this, I think perhaps I will have to speak pretty generally too. I don't think to-day any company is paying any more than it has to for new business, for this reason, it is not to the interest of the shareholders or the policyhold-

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ers. Now I don't think any of the insurance agents to-day are making fortunes, and I don't think, in fact I feel sure in my own mind that if such a law were put in force it would not be possible for us to get men to go out and solicit business for us on the terms such as we have here unless we gave them a very considerably higher or I may say a future interest in renewal premiums, and for a young company for example, it is impossible to do that because there are no old premiums to draw upon. It seems to me also that with such a law it would be a matter very largely of throwing as much as possible of the expense against the old business and the assessment of expense is a matter that no two actuaries or no two men of any position in the life insurance business will agree upon.

Q.—I suppose, Mr. Papps, that if the law were in that shape it would not prevent your company or any other company from writing all the insurance that voluntarily came to it? A.—No. I might say here that we would not be kept very busy.

Q.—You could still take care profitably of all business that sought you? A.—Yes.

Q.—You would not be swelling your volume of insurance by business obtained under the high pressure of competition? A.—No.

Q.—That is what you really mean when you strip it of all its disguises? A.—I mean more than that.

Q.—I do not mean disguises in any bad sense? A.—No, I understand sir. Perhaps I might give you my own personal experience in regard to taking insurance on my own life, I think it is quite relevant, it is this, though I am connected with the insurance, have been since boyhood, I have taken insurance policies on three occasions and I would like to mention the reasons. In the first place I kept putting it off until I was about to pass my 21st birthday and the premium rate would have jumped up then. I took my first policy then. I took my second policy because the premium rates were going to be increased and I wanted to get in on the old rates. I took my third policy because I was shortly about to be married and I took it just the day before I became one year older to get the advantage of the lower premium. There I am a man engaged in the business and put it off until I would lose an advantage by not insuring. I think it is the same and more so with the general population. Every

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man agrees nowadays that insurance is a good thing but if we waited for them to come and insure with us we would not be overburdened with insurance.

Q.—And you would not be overburdened with the excessive cost of getting new insurance. Do you know of any prosperous British Company where they did not employ agents to drum up insurance at all? What is the oldest British Company that is doing business? A.—The old Equitable I think.

Q.—Does it employ agents? A.—Well I think I will have to say this although it nominally does not, I understand that a great majority of the business coming to English companies comes through solicitors and I am not at all prepared to say that the solicitors don't get commissions on it.

Q.—You might just take a look at the Equitable report. It is the report which is to be or has already been presented on Thursday the 3rd day of May at the 144th Annual General Meeting. Now there is new business during the year to the extent of £274,460. You see that? A.—Yes.

Q.—There were claims by death on policies amounting to £151,940? A.—Yes.

Q.—And the bonus additions that were paid with those £151,000 were £200,419? A.—Yes, I see.

Q.—The bonus additions that had previously been surrendered for cash or reduction of premium amounted to £11,791? A.—Yes.

Q.—So that the total bonus additions on these policies which became claims were £212,210? A.—Yes.

Q.—The original sum insured £151,000 had therefore been increased by bonus to £364,000? A.—Yes.

Q.—So that on the average every thousand pounds of original insurance had been increased to £2396 or considerably more than 2 1-3 times the original sum insured. Then there is a statement here, 47 policies assuring £229,268 with bonus addition of £4278 attached were repurchased by the society during the year for the sum of £7342/17/9 and cash payments amounting to £513 had been previously allowed for the surrender of bonus, the total amount returned by the society to the assured was thus £7856, which was equivalent to more than 92 per cent. of the total premiums paid on the policies? A.—Yes.

Q.—The total expenses of management, including the special expenses incidental to the quinquennial valuation and distribution of profits amount-

ed to £16,702, being 8.75 per cent. of the premium income or 4.46 of the total income. Now that is the record of a company which at all events ostensibly does not employ agents. That is right isn't it? A.—That is right.

Q.—If you had a law such as the law that is spoken of here, in force, large commissions in respect of new business would have to be cut down wouldn't they? A.—Yes, no doubt.

Q.—That would be a disappointment for the time being no doubt to some people, to the people who are receiving these commissions, but would it not in the end adjust itself, would you not get all the legitimate business that you want at reasonable rates of commission? A.—There is a good deal of doubt about that.

Q.—Is it an unmixed good to have this enormous volume of business, 70 odd per cent. of the lapses in which occur at the end of the first year and result in a large total loss, isn't it a great deal better to have less insurance and have it more persistent? A.—Most certainly.

Q.—Is not the result of the competition which is going on and the swelling of the total volume of insurance to bring in first premiums followed by no more premiums? A.—Yes, I think the competition has a lot to do with it.

Q.—That would be a thing that you would be glad to be rid of? A.—Most certainly.

Q.—If your agents were prevented from giving rebates they could work for less commission couldn't they? A.—Yes, any agent I have spoken to has expressed himself quite clearly on that point.

Q.—That is your own view? A.—That is my own view.

Q.—Now let us look for a moment at the thing as a question of principle, your company like other companies, purports to do a participating business with its policyholders? A.—Yes.

Q.—It invites the public to come in and be insured with a view to participating in the profits of the concern? A.—Yes.

Q.—Is it in your view desirable to embark in business which has the result of imperilling or impairing the profits which the policyholders may legitimately look to receive? A.—I should say not, decidedly.

Q.—Do you know Mr. McClintock? A.—I have met Mr. McClintock. I

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am not intimately acquainted with him.

Q.—Who is he? A.—The actuary of the Mutual Life of New York.

Q.—Is he a man of eminence in his profession? A.—Decidedly so.

Q.—Have you read the statements quoted from him at page 297 of the report of the New York Joint Committee? A.—I have read Mr. McClintock's evidence I think as published by his own company, but whether it is exactly the same as that I am unaware.

Q.—I want to read this to you and ask you whether you see any reason to dissent from it. "Q.—Would there be any way by which the company, the old Equitable of London, which has never employed an agent, could increase its business without reducing the returns to old policyholders? A.—If it adopted a different system of valuation, yes.

Q.—What would be the different system of valuation that would permit that result? A.—What I spoke of the other day, Dr. Spragge's system would permit it. Mr. Dawson's system would permit it.

Q.—What do you refer to as Mr. Dawson's system? A.—It was a system which was proposed for reducing the amount of reserve the first year by giving the company credit for the mortality gains for the ensuing 5 years.

Q.—This is based on the idea that the personally examined risks, the new risks of the company show a more favourable rate of mortality than is indicated by the present valuation? A.—Yes.

Q.—Now is that more favourable rate of mortality shown by any reliable data? A.—"Oh yes." Do you agree with that so far? A.—There is just one little point in there I would be inclined to differ somewhat in the answer to that question as to whether this idea of valuation was based on the fact that the new risks of the company show a more favourable rate of mortality, because I don't consider that that formula of the selected and ultimate is entirely based on that idea.

Q.—It is partially based on that idea? A.—Yes.

Q.—Well then we will admit that variation in opinion for the present. "Have you tables which will enable you to state in fairly accurate percentages the extent to which personally examined risks for new business during say five years after business written, show a better mortality than is

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taken for granted in the present system of valuations? A.—The experience of companies is sufficiently well known to indicate that for the first year the mortality ought to range about 50 per cent on the American table." Do you agree to that? A.—Yes.

Q.—"And the idea is that the large saving or mortality for the first year should have some correspondence in the valuation of the policy or the fixing of the reserve? A.—That is his idea."

Q.—"And the amount that would be saved on the reserve by that sort of valuation could be used with affecting the interest of their policyholders in the getting of new business? A.—There is no doubt of it." Would you agree with that speaking generally, subject to the variation you spoke of? A.—I would be inclined to differ with the statement that that what he calls saving in mortality might be used to assist in paying for new business, because it seems to me that theoretically the fact of policies not falling in by death in the early years is theoretically at least a very good reason for the companies holding instead of a lower a little higher reserve to meet those claims when they do come in on the assumption that if you have lower mortality than the table you are using calls for in the early years you may have a little more in the later years.

Q.—You would not have a little more in the later years than you have already provided for on the standard table, you don't look for that? A.—No, but I am talking now purely of the reserve.

Q.—Yes, so am I. A.—Well, I say this that it might happen that the mortality in later years might be in excess of the mortality provided in the particular table. I don't know that it would be.

Q.—Well now, see if we can put the difference just in a nutshell. The formula for the selected and ultimate table reduces the reserve doesn't it? A.—Yes.

Q.—The selected formula, taking that by itself, reduces the net premium? A.—It reduces below the ultimate table, yes.

Q.—Then that is where the difference is? A.—Yes.

Q.—I take for granted that mortality by the O. M. 10 table is not higher than the Hm., which is the present Canadian standard? A.—I believe not.

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Q.—Do you know about an investigation that has been going on at Milwaukee into the affairs of the North-Western Mutual? A.—No, I have not seen it.

Q.—Then that we will prove otherwise. Then Exhibit L. I think I will put it in now. This is an answer that you have given to our questions in connection with the question about surrender values? A.—Yes. (Exhibit 74.)

Q.—Then just a question or two with respect to this profit and loss sheet. The net income from securities investments is only \$11,000 odd? A.—That is the profit.

Q.—That is net after taking the reserve out? A.—Yes.

Q.—Does not that seem to you to be somewhat small? Ought not your securities to have been earning more than that? A.—No, I would say not. In this way, we are, as I explained, still holding the $4\frac{1}{2}$ per cent. reserve on this, all our old business, so that at that $4\frac{1}{2}$ per cent. reserve valuation a considerable amount of interest is required to maintain the reserve.

Q.—I see that. But the \$11,789.36 is not a large return upon the amount that you have invested, not a large net return? A.—No.

Q.—Then the profits from sales, that of course is an item as to which there is always a contingency? A.—Yes.

Q.—And so this increase of market values at present at all events, that is on paper; the thing itself is not changed. If you had not turned over at any profit and if there had been no increase in market values of course you would wipe out half the ultimate net profit? A.—Yes.

Q.—And if the values had gone the other way to the same extent, that is if instead of making a profit you had made a loss on sales, instead of showing an increase you would have to show a decrease of \$64,000 of market values and you would have wiped out the whole things? A.—The whole increase.

MR. SHEPLEY: I shall subsequently, of course, have to put in some of the matters that I do not care to cross-examine upon; I take them as facts contained in the answers from the company. Subject to that, and subject to any questions coming up that make it necessary, I have completed all I want to ask Mr. Papps.

MR. HELLMUTH: I would like to ask Mr. Papps a few questions arising

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out of matters my learned friend asked, and particularly in regard to that statement which I think on the questions that I asked Mr. Junkin it is quite manifest—I do not want to say that—that that \$135,000 of surplus is not as it was stated.

MR. SHEPLEY: I am very anxious to make progress and it would seem to me—I submit it to my learned friend to consider whether or not we have not with the statement itself and with the questions and answers that have been asked and made—whether we have not everything except the mere drawing of obvious inferences.

MR. HELLMUTH: I would have liked to have asked the witness a question or two about state insurance, which has been tried elsewhere, and its results. I do not want to take any length of time; it would be a matter of probably half an hour at most.

JUDGE MAC TAVISH: Would you prefer to proceed with the examination now Mr. Hellmuth?

MR. HELLMUTH: I would prefer to-morrow morning.

MR. McLAUGHLIN: I submit that fish ought not to be made of one and fowl of another. If the Dominion is to carry on the investigation and I am to suggest my questions to Mr. Shepley, others should be put in the same position. I feel strongly on that point. The examination yesterday did not elicit anything more; it was merely a rehash of what had been asked. It was for no good purpose but merely to cast a reflection upon the company.

MR. HELLMUTH: I do not hear what my learned friend is saying, but I have no doubt it is very interesting.

MR. SHEPLEY: I told my learned friends that I would ask your honors now what the plan is for Monday, as counsel of course want to make other arrangements if we do not sit.

JUDGE MAC TAVISH: What do counsel wish?

MR. SHEPLEY: Speaking for myself I desire to go on on Monday.

MR. LeBEUF: Next Monday I cannot be here and probably I cannot be here next Tuesday. I would only ask my learned friend, if he can avoid bringing up any questions which would interfere with the policyholders of the Province of Quebec, to do so, for those two days.

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JUDGE MAC TAVISH: That is reasonable. In that case we had better say now that we will sit on Monday.

MR. HELLMUTH: I understand the witness will be here in the morning?

JUDGE MAC TAVISH: Yes, that is when we adjourn to-morrow afternoon we will adjourn until Monday morning.

(Adjourned to 10.30 a. m., on Friday, the 4th day of May, 1906).

TWENTIETH DAY.

MORNING SESSION.

Toronto, May 4th, 1906.

Examination of Mr. Papps continued.

MR. SHEPLEY: What is that statement? A.—That is a supplementary statement I was asked to prepare. It shows for each year of issue the amount of business paid for and the lapses; the heading will probably explain it better: "Percentage of lapses in year following issue of new business actually paid for in year of issue;" that means that in the year 1901 there was this amount of business issued and actually paid for, and this amount of business lapses the next year.

Q.—That is carried out in percentages in the last column of all? A.—Yes.

Statement showing percentage of lapses in year following issue of new business actually paid for in year of issue, filed as Exhibit 76.

Q.—Then I have two other papers here relating to specific policies issued on the natural premium plan; what is the natural premium plan? A.—As I understand it, the natural premium plan gets its name from this fact: that the premium charged each year or each term of two or three years, some cases five years, is supposed to be sufficient to cover the cost of the insurance during that year or series of years.

Q.—And then that progresses according to the age of the person? A.—Yes.

Q.—These are specific policies as to which the history is given in these two sheets? A.—Yes.

Q.—One is the policy of a gentleman named Wilson who commenced in 1888 on the premium plan with \$13.45 as

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the premium for the first quinquennium? A.—Yes, sir.

Q.—Rising by gradations till in the fourth quinquennium it amounted to \$36.95? A.—Yes.

Q.—And the other? A.—Is similar

Q.—That lapsed in its third quinquennium? A.—Yes.

Statement of two policies referred to on the natural premium plan filed as Exhibit 77.

Q.—What is the experience of your company with regard to these natural premium policies, as to their feasibility from the insurance standpoint? A.—I can answer that in a general way and say that the natural premium policy is an attractive enough policy in the early years when the premium was low, but as the life insured gets older unfortunately the premiums increase, and I think these policies nowadays, at any rate, are usually taken, in fact all term policies are usually taken with the idea of replacing them by better policies afterwards. The unfortunate difficulty is that most people put off changing them to a better plan until the premiums get very heavy.

Q.—Is it remunerative to the company, or do you find that the expense of carrying that exceeds the natural premium so called? A.—I cannot answer that definitely except in a general way, and say that the company does not encourage that class of business.

Q.—That is, I suppose it does not encourage, because it does not pay the company to carry it? A.—We do not want the business; we do not consider it as a desirable business for us to pursue.

Q.—I want to call your attention to the Government return for 1904 and 1905, at page 44 of the return for last year your company is put down as having had under the head "general expenses" an expenditure of \$482,805.68? A.—Yes.

Q.—In the previous year in the Government blue book at page 254 you have in round figures covering the same classes of expenditure, \$394,000? A.—Yes.

Q.—Are you able to offer any explanation of the increase between 1904 and 1905? A.—Yes. Before doing so, sir, I think it might be well to make these records complete. This 44 should be referred to as the abstract. I would say this: there are several causes; in the first place, of course, there is a larger amount of

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business in force. I think it will be found that the company also wrote a larger amount of new business; furthermore, during the past year, 1905, there was considerable spent in opening up and extending our business in new fields.

Q.—That is what you have to say with regard to that, that there is more business in force, and therefore more expenditure in connection with the business carried, more new business, and therefore more expenditure in connection with that and then expenditure in extending your business? A.—Yes.

Q.—MR. SHEPLEY: I thought I had already put in, but it seems I have not, the tables to which Mr. Papps' attention was called yesterday, tables B, C, D, E, F, and H. There are other matters attached to them, but the tables are what I am putting in. (Tables marked as Exhibit 78).

MR. HELLMUTH: I would like to ask a few questions.

MR. McLAUGHLIN: I beg to renew the objection I made before. When my learned friend Mr. Hellmuth was permitted to put questions to Mr. Junkin it was on the understanding as far as I was concerned that the same privilege would be granted to other counsel. As the matter has come up, and it has been ruled definitely as to counsel representing the companies, I think the same ruling ought to apply to all. Neither the Province of Ontario nor the Province of Quebec have any legal status here. If this Commission is acting within its jurisdiction it is investigating matters within the exclusive jurisdiction of the Dominion of Canada, and we assume it is acting within its jurisdiction; therefore the Province have no jurisdiction in the matter at all. I merely state the matter that way, and the way in which I think it cannot be controverted. We are anxious on behalf of our company to submit all the information we possibly can. The learned counsel for the defence has been so kind as to compliment us on the fullness, completeness and early date at which we answered the large number of questions submitted to us, and that of course may be one reason why our company has been given the first place in this Investigation. I have also to say with reference to the questions put by my learned friend Mr. Hellmuth the other day to Mr. Junkin that they did not appear to be inspired altogether with a desire of eliciting information and

getting at the facts. Mr. Junkin had been on examination for five days, had answered very frankly and fully, remarkably so, I think, as to the various matters of business and the innumerable transactions in connection with a large company for so many years. He had also been asked as to his secret thoughts and meditations of his heart, and as to abstract principles of moral philosophy. It was not necessary at the close of all that examination for counsel to make such remarks to him as if he ever stole a dollar would he forget it, and things of that kind, which were clearly, I submit, unnecessary. I do not want to say for a moment that they were asked with any malicious intent, but I think it was not in good taste. We were told by Your Honor in the beginning that this was not a prosecution, and we are ready to submit any information that the Commission asks us for, directly or indirectly, and we wish to be treated with reasonable courtesy. I submit the examination conducted by the learned counsel for the Dominion has been thorough and exhaustive. I do not think my learned friend Mr. Hellmuth will question either the ability or the good faith of the gentlemen that have conducted that examination, their ability to make a thorough examination and their good faith in carrying that out, and I do not think he can question but what it has been done. We from our point of view feel that it has been somewhat one-sided, but I have no doubt the counsel have conducted it in a manner which appeared to them to be in the best interests of the Dominion at large, for whom they are acting, and I have no right to object to their methods of conducting that examination, and I am not doing so; only after an examination so thorough and exhaustive, and by counsel who are perfectly capable of conducting it, there is no logical reason, no good reason of any kind, why counsel who have no status here, who represent nobody—because I appear here for the company and for all its members, both policyholders and shareholders—I do not admit the right of any man to come here to say he represents my clients—there is no good reason why counsel who have no status here should be allowed to examine.

MR. LeBEUF: If the Board will allow me, I think it is time for me to state that with regard to myself and the Province I represent my learned friend is in error. I do not

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pretend, and I want it to be made very clear, that I have the slightest right to put any question or any cross-question to any witness. I said at the beginning in Ottawa that I am not here to take any leading part in this Investigation. Of course I must look to the interests of the Policyholders of the Province of Quebec, and whenever I think there is any suggestion to be made I make it to Mr. Shepley or to Mr. Tilley and ask them to put the question that I would like to be put; but I do not pretend for a single moment that I am entitled to put any question myself. On this I have no hesitation whatever.

MR. McLAUGHLIN: I am quite willing to submit to my learned friend, Mr. LeBeuf's correction of my statement as far as he is concerned.

MR. SHEPLEY: I do not know that anything is expected at all from me. I have stated my position from the outset, and there is not any useful purpose to be served by my stating it again.

MR. HELLMUTH: It is perhaps somewhat unfortunate that I should find myself in a different position from the gentlemen who represents the Province of Quebec. I do not know that I have ever claimed any right to conduct this inquiry, but I do claim a status here; I claim a status as appointed to represent the policyholders of Ontario by the Government of the Province of Ontario. I do not know any higher authority to appoint a counsel. If the Commission say they do not wish counsel on behalf of the policyholders of Ontario appointed by the Government, I shall retire as gracefully as possible; but if they so desire that the assistance of counsel in that capacity shall be afforded to the Commission—and I certainly understood when we appeared at Ottawa it would—then I suppose they expect that assistance to be as full as the counsel is capable of giving. I do not doubt, and I would like to make that as clear as possible, I do not doubt in the least the absolute good faith of those conducting the inquiry, but there are certain matters that are brought to the attention of myself and colleagues by policyholders to ask us to bring certain matters out. If that is so, and these matters are worthy of any attention, why should a reasonably short examination not be allowed? I

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go further, if to myself and colleague matter is brought in the shape of information of witnesses I would ask the Commission to allow me to introduce that witness at the close of any particular matter. Surely he could not be refused, unless it be that the policyholders of the Province of Ontario are merely to sit by and look on; and if that is so I do not care to fill the role, that is to say I do not think any good object can be served, because we can all read the proceedings. I do not want to interfere unnecessarily, I do not propose to interfere unnecessarily, I do not want to go over ground that has been covered, but there are matters that during the course of an investigation will suggest themselves. As to one thing I think it would have been a great deal better if my learned friend Mr. McLaughlin had made no reference to Mr. Junkin. I made no reference whatever to him, but when it is said that I unnecessarily pursued a gentleman whose conduct admittedly by himself was perfectly outrageous in the accounts he falsified, the resolution—

MR. McLAUGHLIN: My learned friend has no right to make that statement.

MR. HELLMUTH: I make that statement with absolute certainty, I do not propose to be dictated to by my learned friend.

MR. McLAUGHLIN: It is following up the same spirit you exhibited before. I must say now I am not here to listen to that kind of thing. I think, Mr. Chairman, in all fairness the test of a good man is not that he never makes a mistake, but the test of an honest and good man is when he makes a mistake he makes it right. That has been done in this case by Mr. Junkin, by Sir Henry Pellatt and by every director of the Manufacturers' Life. We have not a man who comes here as a paragon of virtue and says he never makes a mistake. This is not to be a quarrel as to personalities, and when my learned friend gets up here to make a violent personal attack on Mr. Junkin who is not able to defend himself before this Commission he is doing an outrageous thing.

MR. HELLMUTH: I have not made a violent personal attack.

MR. McLAUGHLIN: You do not know what a personal violent attack is.

MR. HELLMUTH: Be quiet.

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JUDGE MAC TAVISH: We must have order.

MR. HELLMUTH: When Mr. McLaughlin says I am actuated by improper motive, and that I exhibited improper motive I throw those back at him; I say my motives will stand their own test, and I do say anyone reading that evidence would have been perfectly justified in going a great deal further than I did go. The evidence is there for everybody to read. I submit I am entitled to ask reasonable questions; of course if they are at unreasonable length the control lies with you. If you decide I have no status at all, that my position must be simply to sit and look on, I have to bow to your decision, but I protest against it.

MR. McLAUGHLIN: I would like to say a word in answer to a few remarks made by my learned friend. In my earlier statement I was particularly not careful not to attribute any wrong motive to my learned friend; I expressly refrained from doing that. I am not in the habit of making unkind remarks with reference to counsel who appear in cases, and if I did make an unkind remark with reference to Mr. Hellmuth, I would be glad now, and do most heartily withdraw it. Just one word further; if our friends, the Ontario Government were investigating their own insurance department and the various companies that are licensed and chartered by them, which they have perfect jurisdiction and right to do, and which I think they ought to do, they would consider it improper for the Dominion to interfere in that investigation. Then I further say in answer to what my learned friend says, when he comes here and says he represents exclusively the policyholders of Ontario I say that I represent the policyholders of my own company and the members of my own company. Further, does he mean to say that the counsel representing the Dominion of Canada do not represent the people of Canada, the policyholders from one end to the other. Does he mean to deny that statement? If he does he denies something that is self-evident. It cannot be denied.

JUDGE MAC TAVISH: The Commissioners are of the opinion that Mr. Hellmuth should be permitted, and counsel for any Province representing the policyholders

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of that Province should be permitted—to use the words used at the opening of the Investigation—to further elucidate a particular subject matter after it has already been dealt with by counsel for the Dominion. We desire the Investigation to be as thorough as possible, and we have no desire whatever to restrict any reasonable scope that the Investigation may take. We do desire, however, to save time, so far as we can, and I think that within the next few days we must have a consultation with the counsel interested to see if we cannot devise some means by which the proceedings may be expedited. We are not discussing the question of the strict legal right of counsel, but we think that in the public interest we should not, at the present stage at all events, say that counsel appointed by the Provinces representing the policyholders have no right to interpose in the examination of witnesses called by or on behalf of the Investigation. We of course must not lose sight of the fact that it is only one Investigation (not two or three) and that the counsel appointed by the Dominion have the conduct of it.

Examination of Mr. Papps continued:

MR. HELLMUTH: I suppose you have read the Armstrong Commission report? A.—I cannot say that I have. I have read at different times different articles in the Insurance papers, but recently, as you may well imagine, I have been rather too busy to read very much of insurance literature.

Q.—Perhaps you noticed their references in regard to the advantage or disadvantage of capital stock in a company? A.—I have seen a good many articles of one kind and another for and against it, whether I could remember any particular article I could not say.

Q.—In their report after going through the various companies in this volume at page 376 they say, "Not only should stock companies be permitted to give policyholders the right to vote, but an opportunity should be afforded for conversion into purely mutual companies"—you have heard that idea expressed? A.—Yes.

Q.—And then on the next page they say, "In other words the law should provide that the stock should

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be retired upon an equitable plan providing for payment of the stockholders, etc."? A.—Yes.

Q.—Do you think that capital stock plays any important part in a life insurance company after it has got fairly on its legs, that it is of any advantage whatever to the policyholders? A.—That, Mr. Hellmuth, is rather too general a question to answer yes or no to; I might be allowed to explain.

Q.—Yes? A.—If we take the case of a company that has been in business for a considerable number of years, and has got a good deal of its business, or you may say the majority of its business on the deferred dividend plan, so that there is considerable surplus accumulated, then the capital stock, unless it is a very large one, won't have very much importance in the company, for this reason, that in the event of any undue fluctuations there is a considerable surplus there to fall back upon without upsetting the legal solvency of the company. If, however, we could take the case of a company just as old, just as large, that distributed every dollar of surplus at the end of every year, I think that the capital stock would play a very important part in the management of the company.

Q.—That is to say if a company is in a first-class financial position, with a large surplus, with reserves proper and all that, then it does not require the capital? A.—I should say not.

Q.—And the capital of such a company, the larger it is is the greater drain upon the policyholders? A.—No, I would not say that.

Q.—Let us just see; the capital, we will say, earns the ordinary rate of interest as other investments earn? A.—Yes.

Q.—Somewhere between 4 and 5 per cent.? A.—Yes.

Q.—If the dividends paid on that capital are 8 or 10 per cent. the difference has to come out of the profits, has it not? A.—Unless the shareholders have paid in more than their nominal capital.

Q.—Whatever the nominal capital is, if a dividend is paid upon that it must come out of the profits from the policyholders' money? A.—Certainly, because there is no other place.

Q.—Are you in favor yourself of the abolition or conversion of the capital so soon as a company gets strength? A.—I can hardly answer that question

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either yes or no; I will have to say this, if, and, it is necessary to use the word if, if it were possible to get the policyholders to take an active and intelligent interest from year to year in the conduct of the business, to exercise their voting power intelligently, I think that I might be inclined to favor the idea of paying off the shareholders in an equitable manner, but, and here is the difficulty, if it is impossible to get the policyholders to exercise their option of voting, and to exercise it in an intelligent way, then I consider that placing the management nominally in the hands of the policyholders may be fraught with great danger to the company.

Q.—Nominally? A.—Yes sir.

Q.—You do not think it could be devised that the policyholders would really have the control? A.—I can perhaps best answer that by saying that at present I do not know one purely mutual company where I think the policyholders really exercise very much control in the management of the company.

Q.—With proper conditions though you would favor the mutual company with a policyholder controlling? A.—It depends altogether on what the word proper means.

Q.—I mean people acting perfectly sensible to their own interests? A.—Yes, but before agreeing with that I would have to be assured that they would do so.

Q.—I don't know whether you gave my learned friend the figures of the amount that would be required to place your business on the 4 per cent. reserve? A.—The whole of the business?

Q.—Yes, I mean the old business on the 4 per cent. reserve, just the figures? A.—I have not them here.

Q.—You can give them, can you? A.—Not on the Hm. 4 per cent. I will have to explain that to you. We happen to be reporting to the State of Michigan a valuation of our policies on what is known as the combined mortality table, 4 per cent. interest.

Q.—Would it make many thousands of dollars difference? A.—Yes, it makes considerable difference.

Q.—You have not calculated the other? A.—No.

Q.—Do you view life insurance as an indemnity or an investment? A.—I was given to understand from the legal standpoint a life insurance contract is not supposed to be a contract of indemnity.

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Q.—I am not asking the legal point of view, is it intended to be an indemnity such as fire insurance, or is it an investment? A.—I understand that is the distinction between fire insurance and life insurance, that fire insurance is an indemnity and life insurance is not.

Q.—You do not think life insurance is an indemnity, is that your view, but an investment? A.—No sir, I would not say it was that.

Q.—It can be more certainly fixed on an average than any fire insurance—I think you have almost told us that? A.—Yes, I should say so.

Q.—So that it can be made an indemnity pure and simple? A.—I do not think I can agree to the use of the word indemnity, because the man that is to be indemnified, that is the earning power of any particular life is a pretty hard thing to fix.

Q.—But if you insure your ten thousand dollar house for \$5000 you have an indemnity as to \$5000 of the value? A.—Yes.

Q.—If you insure your \$100,000 life for \$50,000 you have an indemnity as to \$50,000? A.—Looking at it in that way.

Q.—So that in that point of view is life insurance best to be considered as an indemnity or as an investment, the money put in, is it to indemnify against that loss, or to be invested—which is the better plan? A.—I cannot give a definition in that way, I can only say I think life insurance must be considered as a combination of the two.

Q.—And as a matter of fact 90 per cent. of insurers treat it as investment by taking participating profit bearing policies? A.—Yes, I suppose you can look at it in that way.

Q.—So that only about ten per cent. of those insured in companies are treating it as a pure indemnity, or as an indemnity only? A.—I think you are wrong there, because you take the ten per cent. who have without-profit policies, if they take without-profit endowment insurance policies they naturally look at that endowment as an investment although there are not any profits attached to it.

Q.—You are only leaving my percentage still more; there are not even ten per cent. who look upon insurance, or who take insurance now for the sake of indemnity? A.—No, I could not agree to that, because I do not know that any one takes insurance without the idea of indemnity.

Q.—No, but I mean the investment

feature is present to them, and is encouraged? A.—I think so in most cases.

Q.—And that materially of course adds to the cost, bringing in the investment feature? A.—The cost of what?

Q.—The cost of the premiums? A. Yes, it increases the premiums.

Q.—Have you any knowledge of any system where insurance is treated solely as indemnity without any investment? A.—I think perhaps the nearest approach to that would be what is technically known as a yearly renewable term policy.

Q.—You are speaking now of a company which does that business alongside of its participating profit business? A.—Yes.

Q.—Do you know of any system though, that ignores altogether the profit issuing policy and simply gives insurance at rates that merely cover the reserve and the actual expense without anything provided for profits? A.—I cannot say that I know of any company today that does that.

Q.—I did not say company, I say of any system, any place where that is done, any country—you are an insurance man, you surely have studied this question? A.—I do not know exactly what you mean.

Q.—Do you know the New Zealand Government Insurance? A.—I know something of it, yes. The actuary of that company has been kind enough to send me literature occasionally.

Q.—You know there the cost of insurance—

Mr. Shepley speaks to Mr. Hellmuth.

MR. HELLMUTH: My learned friend Mr. Shepley has stated that this Government Insurance he is taking up as an independent branch, and under those circumstances I do not wish to go into it with this witness, although I think that perhaps this witness might possibly be recalled.

MR. SHEPLEY: He may be useful when the time comes, but I do not care to commence in that way.

MR. McLAUGHLIN: I may say so far as Mr. Papps is concerned, any general information he can give to this Commission he will be available at any time. We presume he is being examined now with reference to our own company.

MR. HELLMUTH: Q.—Leaving that subject for a moment then have you made any calculation as to the

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cost of your tropical and sub-tropical business, how it compares with the cost of other business? A.—There was one thing now with regard to this foreign business I think in justice to the company I will have to ask the permission of the Commissioners to give in a general way this information without giving details, and then any question I may be asked to answer I will be glad to do so afterwards; will that be satisfactory.

Q.—Perfectly A.—I have gone to some little trouble to get some information on this subject, and I have no objection to you seeing it, or I have no objection to handing it in as an exhibit, if we are assured it will not be published for the benefit of our competitors.

Q.—Do not put it in please in that way; I can ask you some general questions which you can answer generally? A.—Would it not be better to let me give a general statement first?

Q.—I will just ask you a general question; I have no objection to your giving a general statement; what I want to get at is this, is or is not the cost of this foreign business in excess of the cost of home business? A.—I think not.

Q.—You have gone over the returns? A.—Yes; of course that statement, one word, cost needs to be qualified; by cost I suppose is understood the relative cost to the company of the business.

Q.—No, I do not mean that, I mean first, does a thousand dollars of insurance in the tropical or sub-tropical countries cost you more than a thousand dollars of insurance home here in Canada, that is the first, I do not want the details at all—I want to know if that is correct? A.—I cannot say that it does, to answer that question I cannot say yes or no.

Q.—You have not looked it up? A.—It is a question of how to look it up.

Q.—Do you not get returns of the total expenses of the insurance written in the various countries beyond Canada? A.—Yes, certainly.

Q.—And can you not tell then what the volume of business in any given year in any given country has cost in proportion to the amount of business obtained? A.—Yes, the difficulty is this, it is necessary to apportion the expenses, as Mr. Junkin explained on the stand, between new and renewal business, and that makes it difficult to answer your question just as you

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ask it. Allowing for the relative volumes of new and renewal business I would say that our foreign business on the whole does not cost us more than at home, or if it does cost more in dollars and cents it is more than made up by the provisions made in the premium loadings.

Q.—That is as you have explained the premiums are loaded higher for the tropical and sub-tropical business? A.—Yes.

Q.—But the net premiums are the same? A.—They are very, very considerably different.

Q.—The net premiums as well as the loading? A.—Yes.

Q.—The net premiums are higher? A.—Yes.

Q.—Highest in the tropical? A.—Yes.

Q.—And between home and tropical in the sub-tropical? A.—Yes.

Q.—And does that make allowance for a larger reserve, those higher net premiums? A.—That is a very technical question. I can only explain it in this way; if the excess of mortality in the tropics falls during the early policy years, there will not be an increase of reserve, for, to put it as simply as possible, it may be considered that the extra amount in the net premium meets the extra mortality year by year as it occurs.

Q.—Do you as a matter of fact calculate the home and the foreign business on the same basis for reserve? A.—For reserves we do.

Q.—Have you made any calculation as to interest earned or paid by the company on that portion of the premium which is the loading for profits? There is a certain portion of participating policies that is loaded for profits, the premium? A.—Yes.

Q.—Now have you made any calculation to show what the Manufacturers returns by way of interest upon that, we will say \$5 or \$6 in the premium that is put there for the purpose of profits, does it return the \$5 itself to start with, supposing that to be the loading, year by year for profits? A.—Do you mean to say does the interest on the \$5 amount to \$5?

Q.—No, no, I mean does it return to the policyholder the sum that has put upon the premium for the purpose, loaded on the premium for the purpose of profits, and at what rate of interest? Have you calculated

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that on any given class of policies?
A.—No.

Q.—Could you do that, because it would be interesting I think? A.—It would be necessary to determine then what particular portion of the premium was supposed to be the loading for expense.

Q.—Certainly, but you can do it in this way, take a straight life policy at a given age, which is without profits, and take the same life policy, at the same age with profits, and the difference in the premium can be assumed to be the loading for profits. That does not seem to me to be difficult? A.—I have not figured it on that basis.

Q.—Would you make a calculation of that kind; do not take one case, that might not be a fair average, but take two or three different ages, and let us see what amount is returned on those loaded premiums, and with what rate of interest? A.—That can be looked up. There is a statement I might make, if I might be allowed to do so. There are a couple of points I would like to mention in regard to my evidence. They will not take very long.

MR. SHEPLEY: By all means. A.—In the first place I would like to say that in answer to that question in regard to lapsed policies I diverged considerably from the requirements in answering the question, as I hoped that it might give some working data for the commission, and I have been thanked I may say for doing it in that way, but there has arisen a little misunderstanding out of the questions and answers of yesterday that I think not only in justice to the company, but the business generally should be corrected. For example the impression has gone abroad that 78 per cent. of the policies issued by the Manufacturers' Life lapsed at the end of one year.

Q.—You did not say that Mr. Papps. A.—No sir, but that is the impression that has gone abroad.

Q.—I am afraid if we try to correct the impressions that careless people form we will use all our time doing that. You made it very clear, and it is down upon the notes.

MR. McLAUGHLIN: It can be made clear in a moment, and these things do serious damage that I am satisfied the Commission does not want done.

JUDGE MAC TAVISH: If you think it is going to do harm to the

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company, and you can correct it in a concise way, you may do so.

MR. SHEPLEY: The witness made no such statement as that. A.—As I explained the other day, public opinion is perhaps the best asset any life insurance company has. Now I will just say that 78 per cent. was this; 78 per cent., not of the policies issued, but of the policies which lapsed in the first five years, went off at the end of the first year. Another thing I might mention in connection with that is that I think the practice of rebating, which has been referred to, is largely responsible for that, because where a policyholder does not pay the full first year premium in the first year, he very often objects to do so in the second.

MR. SHEPLEY: That sounds natural.

A.—Another thing, where a policyholder has taken a policy in company A, when that second premium falls due the agent of company B by offering a rebate can very often induce the policyholder to drop out of company A to go into company B.

JUDGE MAC TAVISH: And form part of the new business of company B? A.—Yes, for one year only. Now I was asked a good many questions in regard to the deferred dividend policy yesterday. I think I might make a short statement to this effect, that I consider the deferred dividend system a beneficial one provided there is a proper annual accounting. I consider that that will eliminate the dangers of the system, and I would like to see it compulsory on the companies to report each year to the Department in Ottawa the state of those funds, giving considerable details. In regard to the question of policy reserves I would like to say that it is only when the solvency of a company is in question that the exact amount of the total policy reserves is so important. As long as there is no question of the solvency of the company it makes no practical difference to the company as a whole whether it has a certain reserve and a certain surplus, or a larger reserve and a correspondingly smaller surplus; both the reserve and the surplus are invested, earning interest. The present system of valuation has proved satisfactory, with perhaps one exception, that it has caused the younger companies to show an impairment of capital in the early years. The selected and ultimate method might relieve that and would

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to a large extent anyway, but it seems to me that if the present system acts as an incentive to the younger companies to reduce and wipe out that impairment at as early a date as possible, I would not care to see that system superseded. When it comes to a question of funding the reserve on individual policies in connection with distribution of surplus, I think the selected and ultimate method is likely to prove very valuable.

MR. McLAUGHLIN: I would like, Mr. Shepley, if you would put in this statement on Mr. Papps' evidence. It shows the exact ratio of the business and the expenses and the results.

MR. SHEPLEY: We won't waste time over it. I will put it in subject to verification.

MR. McLAUGHLIN: It might be read.

MR. SHEPLEY: Do you think it is necessary at this moment?

MR. McLAUGHLIN: Yes, I would like to have it read. I am not asking many favors.

MR. SHEPLEY: I will read it, but it must be understood that it is subject to verification.

MR. McLAUGHLIN: Mr. Papps has sworn to it.

MR. SHEPLEY: This is what the statement says, that the old Manufacturers in a year which is not specified—

MR. McLAUGHLIN: It is 1900.

MR. SHEPLEY: The old Manufacturers in the year 1900 did a new business amounting to \$2,712,205. Which made a total business of \$15,409,620. That they showed assets in that year of \$2,279,176.

That the total income of that year was	\$710,592
That the expenses were	\$157,816
And the percentage of expenses to income	22.21
That the Temperance and General in that same year did a business of	\$1,778,760
Making a total business of	\$10,007,625
That the assets were	\$925,182
That the income was ...	\$294,509
Expenses	\$100,045
Percentage of expenses to income	33.97

Then those are totalled, making an average according to the totality of 25.65 per cent.

Then the business is given for each year in the same way.

1905, the last one, new business

\$7,686,669

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Total	\$42,270,272
Assets	\$7,189,682
Income	\$1,944,810
Expenses	\$482,806
Ratio	24.83

That goes in subject to verification. (Exhibit 79.)

(Hon. S. H. Blake, K.C., appears on behalf of Sir Henry Pellatt.)

WILLIAM J. ROONEY, sworn. Examined by MR. TILLEY:

Q.—Mr. Rooney, what is your occupation? A.—Bookkeeper.

J.—Bookkeeper for whom? A.—For Pellatt & Pellatt.

Q.—Who are stock brokers in Toronto? A.—Yes.

Q.—Sir Henry M. Pellatt, a member of the firm, being the Vice-President of the Manufacturers' Life Insurance Company? A.—Yes.

Q.—Has the firm of Pellatt & Pellatt been brokers for the Manufacturers' Life Insurance Company? A.—I believe they have.

Q.—And also for Mr. J. F. Junkin, the Manager? A.—Yes. I do not mean to say they have been brokers altogether for them, but they have acted as brokers for them.

Q.—They have acted as brokers for the company, and also for Mr. Junkin, the Manager? A.—Yes.

Q.—And you have the books here containing the transactions with each? A.—I have.

Q.—What have you to do with the books of the office? A.—I write up the cash book.

Q.—Are you in charge of the office? A.—I am in charge of the office at present.

Q.—And therefore have general supervision, have you, over the books of the office? A.—Over the books of the office.

Q.—Then will you turn up the account of Pellatt & Pellatt with the Manufacturers' Life Insurance Company? A.—(Produced.)

Q.—The account with the Manufacturers' Life Insurance Company commences with September 6th, 1901? A.—Yes sir.

Q.—And it ends on February the 6th, 1905? A.—Yes sir. That is so far as the ledger entries are concerned.

Q.—Then what other transactions would you have with the company besides the ones that are shown in this ledger? A.—We might have cash transactions, which are stocks pur-

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chased or sold, and paid for in cash the same day.

Q.—You would call those cash transactions? A.—Yes, they would not appear in the company's account in the ledger.

Q.—But all other transactions where the stock is carried for either a few days or a longer time, would appear in the ledger? A.—They would appear in the ledger, yes sir.

Q.—Then is this account that you produce, a correct account of all the transactions with the Manufacturers' Life except those that were strictly cash? A.—Yes sir.

Q.—Then turn to Mr. Junkin's account. (Produced.)

MR. SHEPLEY: I think it had better be understood that we will have exact copies of these accounts put in the record.

MR. TILLEY: Then the account of J. F. Junkin is in another ledger and commenced September 15th, 1902, and continues to May the 11th, 1905, when the account was closed? A.—Yes sir.

Q.—Then in the same way would there be other transactions with Mr. Junkin on a cash basis, or do you know whether this compromises all his transactions? A.—No, I could not say whether he had any other transactions or not on a cash basis.

Q.—But this would include every transaction you had with him except on a cash basis? A.—Yes.

Q.—Then in September, 1902, did you buy some C. P. R. stock? A.—On September the 29th we bought 400 shares of C. P. R. stock, which went through on the 30th. You will understand that purchases of stock which go through in the exchange, go through the clearing house on the following day unless they take place on Friday or Saturday when they would go through on Monday. There is no clearing house on Saturday.

Q.—What you are explaining now is that the dates in the books would be the day after the transaction took place? A.—Yes.

Q.—So the date in the book for a transaction on the 29th of September will be September 30th? A.—September 30th here.

Q.—What transaction have you on September 30th? A.—September 30th, we have the purchase of 400 shares C. P. R., 200 at 139, and 200 at 139½, which includes one-quarter per cent. commission. These are the prices including commissions.

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Q.—Then have you the record of those purchases; what book do you call this? A.—Sales book.

Q.—The entry in your sales book dated September 30th, 1902, is "Bought for J. F. Junkin from," and then the name of the seller is not entered immediately after the word "from" is it? A.—No sir.

Q.—Below there are two items of C. P. R. One is 200 C. P. R. 139, making \$27,800. And the other 200 C. P. R. 138¾ making \$27,750. Added to those sums is the brokerage one-quarter per cent., making in all \$55,650? A.—Yes sir.

Q.—Opposite each of those items, each of the 200 shares you find "P. & P." don't you? A.—Yes.

Q. What does that mean? A.—Pellatt & Pellatt.

Q.—What does that mean then, finding the name Pellatt & Pellatt opposite each of those amounts of stock? A.—It shows that that stock came from Pellatt & Pellatt in the first place. Or, well, not in the first place, but over here you will find a purchase of 400 shares at 138 7-8.

Q.—You refer now to an entry on the bottom of the following page, there being five intervening entries? A.—Yes.

Q.—Five intervening transactions but all dated September 30th, and the entry you refer to is, "Bought for P. & P. 50 shares C. P. R. new 138¾." Then is that the name of the broker from whom you bought? A.—Yes.

Q.—"Ferguson." Making \$4937.50. Then below that "400 shares C. P. R. old 138 7-8." With the broker's name "Case" and the total \$55,550? A.—Yes sir.

Q.—Then you say that the old C. P. R. stock referred to in that entry is the C. P. R. stock that was referred to in the first entry that you read with Mr. Junkin? A.—I do, yes.

Q.—The transaction appearing to be a purchase from a broker of 400 shares for Pellatt & Pellatt, and the sale by Pellatt & Pellatt to J. F. Junkin, is that right? A.—That is right sir.

Q.—All on the same day? A.—All on the same day.

Q.—Then how do you identify that purchase of C. P. R. stock with the sale of the C. P. R. stock to Mr. Junkin? A.—Well, the average price that it shows here works out the same as this purchase from Case, so that we paid Case exactly the same amount as we sold to Mr. Junkin at.

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Q.—You see that you have split it up into two items of 200 shares each on the sale to Mr. Junkin? A.—Yes.

Q.—And taking those two items the total comes to the 400 shares at 138 7-8? A.—Exactly.

Q.—That does not in any way show that this particular stock was bought from Case for Mr. Junkin or the Manufacturers' Life, whoever it was bought for, there is nothing there to identify it except the price? A.—The price, and it was ticked off. That purchase was ticked off for this sale.

Q.—What do you mean by ticked off with the sale? A.—I ticked this myself. We paid \$55,550. You will notice this tick in lead pencil, and with this I ticked those other two entries off. That is the average price paid.

Q.—When did you tick those entries? A.—On September 30th.

Q.—What time of the day? A.—Oh, I presume in the morning. I generally write my cash book up in the morning.

Q.—These entries would be made from the bought and sold notes you sent out? A.—Yes.

Q.—So that the bought and sold notes would all be sent out on the day before? A.—Sent out on September 29th, yes.

Q.—Then the first thing in the morning you enter up your record of sales and purchases the previous day from your stubs of bought and sold notes? A.—Yes, either the next morning or the same night.

Q.—There is nothing on the stubs of the bought and sold notes to show that that purchase from Case at the time it was made was for Mr. Junkin or the Manufacturers' Life? A.—Nothing, there is nothing on the brokers' notes to show that it was made for Pellatt & Pellatt.

Q.—Then is there any prior entry which in any way brings those two transactions together, that the 400 shares were bought from Case for Mr. Junkin or for the Manufacturers' Life? A.—Well, our records for that day show that we bought 500 shares of C. P. R.

Q.—I am not asking you that. I am asking you whether your records show that that particular purchase was made for that particular client or whether you allotted that particular purchase to him after you had made it and probably after you got his order? A.—We have nothing to show that that particular purchase was made for

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him, but we presume it was, we say it is.

Q.—You elect to make it for him at any rate? A.—Well, our entries here show it was. I have ticked those off.

Q.—Then what you do is, after you have made your entries from the bought and sold notes, you go through and tick off the purchases that will offset certain sales, and the sales that will offset purchases you have made before? A.—Yes.

Q.—And then if there are any purchases left that have no corresponding sale for them, they go into Pellatt & Pellatt's own account of that stock? A.—Well, we buy and sell our own stock of course on the exchange; we don't go up in the morning and buy and hold the stock and sell a lot of stock and then allot it to our clients. If we receive an order we go up on the exchange and fill it.

Q.—Have you anything in your records to show that you filled that order by the purchase from Mr. Case? At the time you bought from Case, that you had the order for Mr. Junkin, and made the purchase for Mr. Junkin from Mr. Case, is there anything to show that? A.—There is nothing to show that at all.

Q.—Then other entries here show that condition of affairs. I do not want to read other names at all, but the book does show bought from A for B, and bought from C for D? A.—All these were our clients, or at least our agents in New York. They filled these orders for us, and they are responsible to us.

Q.—Then you say if a transaction is with another broker on the Toronto Stock exchange, supposing you are buying stock for a client to-day, does your entry in this book not show bought for A from Case of some other broker? A.—In some cases it does but we might fill an order on the exchange for some person, buy it from Case, and then put it into some other person's account.

Q.—There would be some rule about that? A.—No, not that I am aware of.

Q.—Then how is it that the 400 shares are split up into two transactions when they appear in the bought note? A.—I cannot say. I don't know I am sure.

Q.—Who would give the direction for that, would you? A.—No sir, I don't make out the slips. In the first place Mr. McCrae as a rule fills our

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orders on the exchange, and attends to all of that. I simply make the entries when they come to me.

Q.—And when you have made these entries you go through and tick off all the purchases that you can allot against certain sales, and then the balance, if there are any, purchases or sales, on a particular day, will go into Pellatt & Pellatt's own account? A.—We know before the day is over if we sold or bought 50 shares.

Q.—I am asking if that is the way you do it in the morning? A.—That is the way I do it, yes.

Q.—Then what account did that transaction appear in? A.—It appeared in Mr. J. F. Junkin's account.

Q.—Was there anything on the broker's note, on the stub, or in any other place to show that the purchase was for the Manufacturers' Life? A.—Not on the broker's note.

Q.—Where did anything of the kind appear? A.—Well, it appears in our reversing entries.

Q.—At the time? A.—At that time I was not aware that it was for the Manufacturers' Life.

Q.—So, the name being entered there, J. F. Junkin, you made the entry into Mr. J. F. Junkin's personal account? A.—I did, yes.

Q.—Then at that time what entries were in Mr. Junkin's personal account? A.—Will Mr. Junkin want me to answer that?

Q.—Well, how many entries were there in his account? A.—There were three entries, two purchases of stocks, and one item of interest.

Q.—There were two other transactions? A.—Yes.

Q.—What were they, purchases or sales or payments of money? A.—Purchases. No payments of money took place at that time.

MR. McLAUGHLIN: I object to Mr. Junkin's personal affairs being gone into.

MR. TILLEY: Nothing has arisen yet that is improper. What is the date of these entries? A.—There is a purchase here of 100 C.P.R.

Q.—Never mind the items at present? A.—On the 8th and 15th of September, 1902.

Q.—I think we ought to know what stocks those two transactions were. What were they? A.—Well, shall I answer that?

Q.—Certainly, no person has objected yet.

MR. McLAUGHLIN: That is covered by my objection.

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JUDGE MAC TAVISH: The question should be answered.

MR. TILLEY: If I thought those stocks should not be identified I would not identify them. I think they should be. A.—Very well, 100 shares of C. P. R. and 100 shares of Dominion Iron and Steel.

Q.—Bought in the previous September? A.—Bought in September, 1902, the same month.

Q.—Then you say that on the 30th the next entry appears of 400 shares of C. P. R.? A.—Yes.

Q.—In two lots of 200 shares each? A.—Yes.

Q.—Then what next transpired regarding that transaction, respecting the 400 shares of C. P. R.? A.—On October 1st we received a cheque for \$8,000; on October 2nd we received \$10,000. On October 3rd we received a cheque for \$11,000.

Q.—You received three cheques for \$8,000, \$10,000 and \$11,000 respectively between the 1st and the 3rd? A.—Yes sir.

Q.—And what was done with those cheques when they were received? A.—They were placed into Mr. Junkin's account.

Q.—Do you know whose cheques they were? A.—No, I do not.

Q.—Would you know if any person knew in your office? A.—Well, I would know, I could find out.

Q.—They passed through? A.—No, I get the slip just to enter them up by. They may have been Manufacturers' Life cheques. I couldn't say. I don't remember seeing the cheques.

Q.—Why did you credit them in Mr. Junkin's account? A.—Well, I presume I knew they were for margin on the purchase of C. P. R.

Q.—I suppose there is no question about that, that they were margin on this C. P. R. stock?

MR. McLAUGHLIN: Or payment. A.—Margin or payment.

MR. TILLEY: Payments on account you prefer to say? A.—Payments on account.

Q.—They were cash paid at the time the stock was bought, and they did not pay for it in full? A.—Did not pay for it in full.

Q.—So that \$8,000, \$10,000 and \$11,000 was paid in that way, and when was the balance paid? A.—The balance was paid, on October 28th we received \$10,000, and November 3rd we received \$16,000.

Q.—And where were those two sums credited? A.—In the Manufacturers' Life account.

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Q.—Reverse entries having been made in the meantime? A.—Yes.

Q.—We will refer to those later. Then there is a small balance? A.—Yes, we charged up interest \$136.71, and we received a cheque from them for \$786.71 which completed that transaction, the delivery of the stock being made at that time.

Q.—You delivered the stock when the last payment was made? A.—Yes.

Q.—To the Manufacturers' Life? A.—Yes.

Q.—Is this the original bought note made out for this 400 shares of C. P. R.? A.—Yes, as far as I can tell.

Q.—And it is dated September 29th, addressed to J. F. Junkin, Esq., without any reference to the Manufacturers' Life, but on the corner it is stamped with what is said to be the Manufacturers' Life Insurance stamp, "Received September 30th, 1902? A.—The stamp is there, yes. (The document is filed as part of exhibit 80.)

Q.—Then before dealing any further with that transaction, what was the next transaction that you had with either Mr. Junkin or the Manufacturers' Life? A.—On October the 6th there is a purchase of 125 shares Dominion Coal. 100 shares at 133 1-8, and 25 shares at 133 1-4. That includes one-quarter per cent. commission.

Q.—That is to say the purchases would be at 132 7-8 and 133, with one-quarter per cent. added in each case for brokerage? A.—Yes.

Q.—Show me the record of that purchase in your purchase book? A.—(Produced).

Q.—"Bought for J. F. Junkin from blank, 100 Dominion Coal 132 7-8, making \$13,287.50; and 25 Dominion Coal at 133 making \$3,325 with one-quarter per cent. brokerage, \$31.25, making in all \$16,643.75. A.—Yes sir.

Q.—That is the total with brokerage added? A.—Yes.

Q.—Opposite the first item of 100 shares Dominion Coal appears the same initials "P. & P." What does that mean? A.—Pellatt & Pellatt.

Q.—And opposite the second appears the broker's name, "Ames"? A.—Yes.

Q.—That shows that the second transaction was a purchase from Ames or through Ames & Co., acting for some client of theirs? A.—Yes.

Q.—That is the sort of entry that I was referring to a moment ago, where the purchase for Mr. Junkin or the Manufacturers' Life would be

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shown to be from some other definite broker? A.—No. I go through the little book we get from the exchange, and the entries as they come, I fill in the names, I don't know whether he thought that from Ames, or anything about it. It might be from someone else.

Q.—There cannot be any doubt that that 25 shares at least according to the entries in your books, was 25 shares bought for this particular client by your firm from another broker? A.—It was bought for a client and I presumed for Mr. Junkin, and filled it in.

Q.—And from Ames? A.—Yes.

Q.—Then the other 100 shares of Dominion Coal from Pellatt & Pellatt, where did that stock come from? A.—It came out of our own account.

Q.—So that was not quite the same as the previous entry on the 30th of September recording the C.P.R.? A.—No, this was our own stock.

Q.—So that the Dominion Coal stock which was put in at 132 7-8 was your own, and what you bought from Ames or through Ames was 133? A.—Yes.

Q.—Was anything paid on account of that purchase of stock? A.—No cash payment at that time, sir. No payment at all at that time.

Q.—And to what account was that transaction carried? A.—Into Mr. Junkin's account.

Q.—What was the next transaction that you had either with Mr. Junkin or the company? A.—On the same day the purchase of 500 Dominion Iron and Steel, 200 shares at 63 3-8, 300 shares at 63½ I think, it is not very clear here. That includes one-quarter per cent. commission.

Q.—Look up the record of that. On October 6th in this purchase is an entry, "Bought for J. F. Junkin from," the name is left blank at that place, but appears later, 300 Dominion Iron and Steel common at 63½, \$18,975; and 200 shares Dominion Iron and Steel common at 63 1-8, \$12,625. Then a quarter per cent. commission is added, making \$125, and the total \$31,725. Opposite the first item of 300 shares of Dominion Iron and Steel is the name "Jarvis." That would be through a broker? A.—Yes.

Q.—And the second lot of 200 shares has opposite it "P. & P."? A.—Pellatt & Pellatt.

Q.—What does that mean? A.—It shows that I simply filled Pellatt & Pellatt's name in here, but if you look

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over here a bit you will find a purchase from our agents in Boston of 200 shares Dominion Iron and Steel at 63, the same price.

Q.—You refer to an entry appearing two pages in advance but on the same date, “Bought for Pellatt & Pellatt from Haydon Stone 200 shares Dominion Iron and Steel, common, at 63 1-8, \$12,625.” Again there is nothing to identify those transactions except the fact that they are at the same price, and you tick them off as being corresponding items? A.—Yes, sir, you understand that these entries are not made as the purchases and sales take place.

Q.—No, these are made the next day? A.—Yes, they are not entered on the sales as they are made there.

Q.—I am asking you, though, if there is anything, any other book here or at the office, or any place that brings those two transactions together except the fact that you have ticked them off as corresponding with the other? A.—No, nothing, except that you mention here that opposite to that there is a purchase. That appears as if we had entered this book up as the purchases and sales were made, which is not the case. I don’t want to convey that impression.

Q.—No, it is a transaction on the same date. What you mean to say is that these entries made on October 6th do not profess to be made in the order in which they were made on that day? A.—Yes, sir, that is what I mean.

Q.—They are just made as you pick up the bought and sold notes the next morning? A.—That is it exactly.

Q.—Don’t those appear in their order, or are they dictated irrespective of the order in which the transactions take place throughout the day? A.—Irrespective of the order in which the transactions take place. They are not read off and made in order.

Q.—At any rate, those are the facts. You cannot show any other paper that brings the two transactions together? A.—I cannot show any other paper, there is no entry in Pellatt & Pellatt’s account.

Q.—Those two transactions do not appear at all in Pellatt & Pellatt’s account of that stock? A.—No.

Q.—And that indicates that at that time they were set off the one against the other, that is to say, they were regarded as being a purchase from your agents for the Manufacturers’ Life or J. F. Junkin? A.—Yes.

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Q.—On October 6th, tell me how much Dominion Iron and Steel stock Pellatt & Pellatt had. I will put in a letter from Pellatt & Pellatt addressed “J. F. Junkin, Esq., Manufacturers’ Life, Toronto,” dated October the 4th, 1902. “Dear Sir,—On your orders to-day we have purchased 125 Dominion Coal and 500 Dominion Steel as per enclosed memo. Yours truly.” That letter is stamped in the same way that the previous broker’s note was stamped, “Received October 6th, 1902,” with the word “Replied” in the stamp but nothing marked there. Attached to that letter are broker’s notes of October 4th, one for the Dominion Iron and Steel and the other for the Dominion Coal. (Documents filed as part of Exhibit 80.) You have now the account of Dominion Iron and Steel stock common that Pellatt & Pellatt kept showing their own stock? A.—Yes, this shows their own stock, their own holdings of that particular stock.

Q.—How much stock had they on October 6th, 1902? A.—2,083 shares.

Q.—And on October 7th how many had they? A.—3,983.

Q.—What accounts for the difference in their stock between the 6th and the 7th? A.—They have to take up 1,900 shares that were put to them at 10, 68½, and 900 at 70½, on those dates.

Q.—On what date did they take up the 1,900 shares? A.—On October 7th.

Q.—Previous to that and within a short time had any other Dominion Iron and Steel stock been put to them? A.—Yes sir, on October 1st 500 shares put to them at 70½.

Q.—Is that the first of that Dominion Iron and Steel about that time? A.—That is the first about that time.

Q.—Then other than those two transactions of the 1st of October and the 7th of October was any other Dominion Iron and Steel stock put to them? A.—Yes, on October 15th 100 shares were put to them at 70½.

Q.—That makes in all 2,500 shares? A.—Yes.

Q.—Explain what it means by saying that 2,500 shares of Dominion Iron and Steel stock was put to them on these three dates? A.—Well, a “Put,” that is a privilege given to a certain person to make you take up a certain amount of stock on a certain date at a certain price and for that he probably gives you a certain amount of money for taking the risk.

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Q.—That is to say at a certain time a transaction takes place whereby in consideration of a payment of money one party obtains the right to make you take up stock at a later date at a certain price that is fixed? A.—Yes.

Q.—Rather a bet on the market? A.—Rather, yes.

Q.—Then how long before the 1st of October or the 7th of October did that transaction take place which resulted in Pellatt & Pellatt obliging themselves on those dates to take that stock that was put to them? A.—I should say from 30 to 60 days. I haven't any definite information.

Q.—So long as it was before the 30 days we do not want anything more definite than that. At some time, a month or over before that date they had obligated themselves to take up 2,500 shares of Dominion Iron and Steel if called upon to do so? A.—Yes sir.

Q.—Now at what price was that stock put to them? A.—1,500 at $70\frac{1}{4}$ and 1,000 at $68\frac{1}{4}$.

Q.—Can you tell me what the market for Dominion Iron and Steel was when the first lot of that stock was put to them, say on the 1st, when the 500 shares? A.—No, I cannot tell you that, but on the 29th of September there was a purchase at $70\frac{3}{4}$. Then the next entry I have here is on the 14th which is some days after the next stock was put to us. The next amount was put to us and that price is $51\frac{1}{2}$.

Q.—Look up the record of purchases and sales; that will show us some Dominion Iron and Steel and about how it was going at that time. Take the end of September about? A.—September 29th it was $70\frac{7}{8}$. The next entry is October 1st, $62\frac{3}{4}$. 63 really. The sale took place at 63. 63 on October 1st.

Q.—So that between September 29th and October 1st, Dominion Iron and Steel common stock had dropped from 70 and a fraction to 63? A.—Yes sir.

Q.—About seven points. And on that date you were asked to take up 500 shares at $70\frac{1}{4}$? A.—Yes.

Q.—It having got down to 63? A.—Yes. On October 6th there is an entry here at $63\frac{1}{2}$.

Q.—That is our own entry? A.—Yes.

Q.—The next entry is 63, so that on the 6th the stock apparently had remained about the same, or at least

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it was on that date—whether it had been the same in the interval or not—63, the same as October 1st? A.—Yes.

Q.—Then how did the market go for a few days after the 6th? A.—When you say October 6th, that should be October 5th, the previous day.

Q.—Yes, these dates you have given are just one day late in each case? A.—Yes. There is $57\frac{1}{8}$.

Q.—On October 7th, that would be for the transactions of the 6th, it seems to have got down to $57\frac{1}{8}$? A.—On October 8th, that would be the 7th, I presume, unless that was a Sunday.

Q.—On October 8th, showing the transactions of the 7th, the stock was then at $52\frac{1}{4}$? A.—Yes, or $52\frac{1}{2}$.

Q.— $\frac{1}{4}$ is near enough. Then follow it a couple of days more? A.—October 9th $47\frac{1}{4}$.

Q.—That would be for transactions of the 8th, $47\frac{1}{4}$? A.—On the 10th $54\frac{1}{4}$.

Q.—Showing the transactions of the 9th? A.— $54\frac{1}{2}$.

Q.—That will do. These prices you have given are from actual transactions that are recorded in your purchase and sale book? A.—Yes, the prices of course may have varied during the day.

Q.—Then on October 8th you say you had how many shares of that? A.—We had 3,893.

Q.—What transactions took place on October the 7th, 1902? A.—We were put with 1,900 shares.

Q.—We have that other transaction with you. We do not want to go over it again. I mean with the Manufacturers'? A.—On the 7th there is a purchase of 200 Dominion Iron and Steel at $57\frac{1}{4}$ which includes $\frac{1}{4}$ per cent. commission.

Q.—From whom was that purchase made? A.—From our agents in Boston.

Q.—That appears to be a regular entry in that way, on October 7th, the entry is "Bought for J. F. Junkin from Haydon Stone 200 Dominion Iron and Steel common $57\frac{1}{8}$, \$11,425. $\frac{1}{8}$ th per cent., \$25, making \$11,450." The difference there being that your agents had already added $\frac{1}{8}$ th to the price and you added another $\frac{1}{8}$ th making the full quarter? A.—We had to allow them $\frac{1}{8}$ th for filling our order.

Q.—So that the quarter per cent. commission was added to Mr. Junkin

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or the Manufacturers' Life? A.—Yes, the broker's note to Mr. Junkin will show at 57 1/4.

Q.—To what account was that transaction carried? A.—That was carried to Mr. Junkin's account.

Q.—Then what is the next item with respect to Dominion Iron and Steel? A.—On October 8th.

Q.—“Bought for J. F. Junkin from blank 100 Dominion Iron and Steel common, 52½; 200 Dominion Iron and Steel common at 51 3/4.” The first one amounting to \$5,250, and the second to \$10,350, which with the \$75 brokerage made \$15,675. Opposite each of those entries are the initials, “P. & P.” A.—Yes sir.

Q.—For Pellatt & Pellatt. Where did you get that stock from? A.—All that stock was purchased from clients of ours.

Q.—That is to say other clients of yours had given you orders to sell and you had sold for them to the Manufacturers' Life or Mr. Junkin? A.—Yes, at the same prices.

Q.—At the same prices that you had sold for the other clients? A.—Yes.

Q.—Then you would render two brokers' notes, one to the client you had sold for, charging him 1/4 and then another broker's note to the client you had bought for charging him 1/4? A.—Yes.

Q.—To what account was that carried? A.—That was carried to Mr. Junkin's account.

Q.—Then how long did those entries remain in Mr. Junkin's account? A.—Until the 10th.

Q.—What happened on the 10th? A.—On the 10th the entries were reversed from Mr. Junkin's account to the Manufacturers' Life account.

MR. McLAUGHLIN: This is the broker's note to the Manufacturers' Life.

MR. TILLEY: I will put in other brokers' notes for the purchases referred to. The first is addressed “J. F. Junkin, Esq., City. We have bought for you 200 shares of Dominion Iron and Steel common at 57.” The total, \$11,450. Dated October 6th, 1902, and stamped, Received October 7th, 1902. Then a broker's note of October 7th, 1902, addressed in the same way, for 300 shares of Dominion Iron and Steel, and also stamped in the same way, received October 8th, 1902. Then what else happened on the 10th of October, if anything in connection with that transaction? A.—There is nothing else on October

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10th. The ledger just shows the reversing entry.

Q.—In the meantime, on the 8th of October you delivered 300 shares of the Dominion Iron and Steel stock and received 200 shares of Commercial Cable stock? A.—Yes sir.

Q.—And where were these entries made first? A.—In the first place they went into Mr. Junkin's account on the 8th.

Q.—So that on the 8th they had not been transferred to the Insurance Company's account? A.—No sir.

Q.—Then on the 10th there was nothing happened with respect to the account by way of payment or pledging of security or anything of that nature at all? A.—Nothing.

Q.—The only thing that transpired that day was the reversing of the entries, taking them out of Mr. Junkin's account and putting them in the Manufacturers' Life account? A.—Yes sir.

Q.—Who made those entries? A.—In the books?

Q.—Yes. A.—I made the entry in the cash book.

Q.—Then you, having made the entry in the cash book, it would follow in the natural course for some other person in the office to carry the entries through into the two accounts? A.—Yes.

Q.—Why did you reverse these entries? A.—I reversed them because they were an error. They should not have shown in Mr. Junkin's account.

Q.—Do you mean to say it was a mistake from the start? A.—It was a mistake from the start.

Q.—What was the first entry that you say was irregularly in Mr. Junkin's account? A.—The purchase of 400 shares of C.P.R. on September 30th.

Q.—And all the entries that you have referred to, from the purchase of 400 shares of C.P.R. down to the transfer of Cable stock for the Dominion Iron and Steel stock, you say all those were wrong? A.—All those were wrong, yes sir.

Q.—When you say you made them, have you now any recollection of the matter? A.—I have a slight recollection of it, but nothing definite. The only thing I can say is, or looking at the books now, it must have been an error on account of the purchases and sales and deliveries of stocks and cash received being reversed. Only mistakes are reversed from one account to another. That is so that they will ap-

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pear in the right account as they should have appeared and that they won't appear when we render a statement to the account that they should not have appeared in.

Q.—So you say it is only a mistake you make in your own keeping of the books that is ever reversed, and by reversing you mean to go through and actually duplicate in the new account that you are carrying the entries to, the same entries that you had in the old account? A.—The same entries you had in the old account?

Q.—Supposing it was decided to take this from one account and put it into another, would not that be a reverse entry? A.—No, that would be a transfer. Transferred from one account to another.

Q.—How would it show differently in the new account? A.—In this case it would show "transferred from J. F. Junkin" and giving the details.

Q.—That is to say, if it was a transfer of certain items from one account to another, it would be entered in the new account, "transferred from" the old account, those words would be shown? A.—Yes, written there.

Q.—Can you say that is done in your books? A.—I can; yes, sir.

Q.—Describe how the entries were made in the Manufacturers' Life account in this case? A.—In this case the first entry in the margin here shows.

Q.—The first entry in the Manufacturers' Life Insurance Company's account? A.—Yes.

Q.—Relating to these transactions we have been speaking about, there is what? A.—October 10th here, the first entry.

Q.—That is to say, in the outside column there is the date at the beginning of this new entry in the Manufacturers' Life account, "October 10th, 1902"? A.—Yes.

Q.—That is the date that you made the record here in this account? A.—Yes.

Q.—Then in another column, next to that column in which appears October 10th, there are some other dates, what do those represent? A.—They represent the dates on which these entries should have gone through this account.

Q.—They are a duplicate of the dates in the Junkin account? A.—Yes.

Q.—But you have not got the September 30th C.P.R. transaction first, I notice. You have an entry of Oc-

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tober 1st, "By cheque, \$8,000," and then you have "October 2nd, by cheque, \$10,000," and "October 3rd, by cheque, \$11,000," before you have got any entry at all relating to the stocks that were bought? A.—That is an error on the part of the bookkeeper. He should have looked at the short extension dates, that is these dates the entries should have been made, and picked out the debits and credits as they came in order. He didn't do that; he posted all the debits first and then all the credits.

Q.—It is not a mistake in the work you did yourself? A.—No sir.

Q.—That is it is not a mistake in the entries in the cash book? A.—No sir, I will show you the cash book.

Q.—You produce now the cash book of Pellatt & Pellatt and you say that the entries relating to this matter are at pages 527 for the debit side of the cash account and 528 for the credit side? A.—That is the credit side to our clients and this is the debit side to our clients.

Q.—Then on page 527 you have these entries, all under date on the outside column of October 10th, but on this inner column, "October 1st Manufacturers' Life local." A.—That means local account, the local ledger.

Q.—"Cheque \$8,000; October 2nd cheque \$10,000, and October 3rd, cheque \$11,000." Was that those cash transactions; that you have on page 527? A.—Yes.

Q.—Then the record of the stocks themselves appears on the opposite page at page 528? A.—Yes.

Q.—And that has the effect of bringing the C.P.R. stock next to the Dominion Iron and Steel stock and eliminating these entries of cash that intervene in the old account? Is that right? That has the effect of putting the records of the stocks on page 528 together, it brings this transaction respecting C.P.R. right in the next line to the transaction respecting Dominion Iron and Steel and Dominion Coal stock? A.—Yes, in this cash book. We couldn't put the cash transactions on that side.

Q.—That is what I mean, the credit items would appear on one side and the debit on the other? A.—Yes.

Q.—Then you say the clerk in transcribing those entries into the Manufacturers' Life account, took the credit side first, showing the cash, and entered up all the cash transactions and then entered up all the debit transac-

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tions? A.—Yes, that is the explanation of it.

Q.—That is the explanation of how the entries of October 2nd and 3rd preceded the entry of September 30th? A.—Yes.

Q.—Then that left Mr. Junkin's account without any sum being credited to that stock at all, the stock you have referred to, those two transactions? A.—Yes, that left it without any credit there at all, any payment.

Q.—Looking at Mr. Junkin's personal account, I suppose that was his personal account? A.—Yes.

Q.—I would like to know how many other transactions occur in his account, without giving any further detail than that? A.—Actual transactions outside of items for interest and dividends?

Q.—Yes, the interest would be something he would not be responsible for, in one way? A.—There is a sale.

Q.—The first transaction you refer to that is properly applicable to this account of J. F. Junkin, is a sale of one of these blocks of stock that you mentioned as being in his account? A.—Yes sir.

Q.—Then after that how many transactions occur? A.—After that there was another purchase.

Q.—That sale was in October, 1904? A.—Yes, in November, 1904, we bought 100 C.P.R. and in the same month we sold it.

MR. McLAUGHLIN: Just look down the account and state how many separate deals there were, a purchase and a sale counting a deal.

MR. TILLEY: Go on in your own way. You say that after this C.P.R. stock originally held, and another purchase and sale of C.P.R. in the same month, then appears a purchase of 50 shares of one stock; 25 shares sold of that purchase. Then another transaction of \$25,000 of bonds, in January, 1905, sold 20 shares of stock, and then in February, the 6th, you sold the Dominion Steel that you first referred to? A.—Yes sir. Then on the 7th we sold more stock.

Q.—Then what you say is that this personal account of Mr. J. F. Junkin would show some 5 or 6 other transactions besides the ones we have been referring to? A.—Yes I should say so.

Q.—Running from September, 1902, down to May, 1905? A.—Yes sir.

Q.—Then those items were transferred you say on October 10th to the Manufacturers' Life Insurance Com-

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pany account and that they remained there from that time on. That is to say, was there any further reversal or alteration of these entries at all? A.—No sir.

Q.—When I was asking you about the entries that remained in the Manufacturers' Life Insurance account and were not further transferred in any way, I meant simply the entries relating to the particular C.P.R. and Dominion Coal and Dominion Iron and Steel that we referred to that were transferred from Mr. Junkin's account? A.—Oh yes, that is what I understood.

Q.—Then I wish you would refer to Pellatt & Pellatt's account showing Dominion Coal stock carried by Pellatt & Pellatt in 1903? A.—(Produced.)

Q.—Tell me how many shares of Dominion Coal stock Pellatt & Pellatt were carrying on March 12th, 1903, being a date when they were buying that stock for the Manufacturers' Life? A.—290 shares.

Q.—290 shares on March 12th. Did they soon afterwards obtain a large block of stock? A.—On April 15th.

Q.—How much stock of Dominion Coal did they then receive? A.—1,710 shares.

Q.—At what price was that received? A.—That would have to be an average price. I think it was about 129. I figured that out last night.

Q.—What was the market price at that time? A.—The market price at that time was around 110.

Q.—Then will you say why Pellatt & Pellatt were taking delivery at that time of this large block of stock at 129 when the market price was only 110? I just want a general statement as to that, I am not asking you any names of other persons in connection with the transaction? A.—It was a syndicate transaction and they took delivery on that day of their portion of the stock.

Q.—What you say is there was a syndicate dealing in some way in Dominion Coal? A.—Yes.

Q.—And that Pellatt & Pellatt were parties to that syndicate? A.—Yes.

Q.—And on the date you have mentioned they took delivery of their share of the stock? A.—Yes.

Q.—And took it out of the syndicate and paid for it as between them and the syndicate and took delivery? A.—Yes.

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Q.—Would you say, Mr. Rooney, whether any person who was a Director or connected with the Manufacturers' Life was a party to that syndicate, other than Mr. Pellatt? A.—I can say positively that the Manufacturers' Life, nor no director or official of the company was interested in the syndicate.

Q.—None of them were interested? A.—None of them were interested.

Q.—You are speaking now with a knowledge of who the Directors of the Manufacturers' Life are? A.—Yes, well at that time. I cannot say who they are now but at that time I was told. I informed myself that they were not. If you will let me see the list of Directors I can confirm that.

Q.—(Exhibits list to witness.) Having gone over the list of Directors with me, what is your answer? A.—My answer is that none of those gentlemen were interested in the syndicate.

Q.—Then would you turn up Pellatt & Pellatt's account of C. P. R. stock? A.—For what year sir?

Q.—About March. About the same date, 1903? A.—Yes sir.

Q.—What C. P. R. stock were they carrying at that time? A.—On March 2nd?

Q.—Well, March 12th? A.—March the 12th we had 1,457½ shares.

Q.—Had you been carrying that amount for some time? A.—It varies here. We have been carrying a lot of C.P.R. at different times.

Q.—A substantial large block like you mentioned, had you been carrying that for some time? A.—Yes, we had been carrying that for some time.

Q.—You have told us that the price of Dominion Coal was going down at that time. How about the price of C. P. R.? A.—On March 10th it was 127 1/8.

Q.—And how was it on March the 6th? A.—On the 5th it was 132 5/8.

Q.—And on the 10th it had got down to what? A.—127 1/8 to 7/8ths. There is another purchase here at 7/8ths. It varies of course. There had been sales at those prices.

Q.—There had been a substantial drop in C. P. R. at those dates? A.—Yes.

Q.—I am asked to ask you whether the account that Mr. Junkin had with Pellatt & Pellatt was a margin account? A.—It was strictly a margin account.

Q.—Then this further question, were the entries that were referred to as be-

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ing reversed from his account to the Insurance Company's account, were they margin transactions? A.—No, I could not call them margin transactions, because the ultimate idea was to pay for them outright and receive delivery of the stock.

Q.—That is the idea was to pay for them and those were the instalments by which they were paid for? A.—Yes sir.

Q.—Then I am asked to ask you this, whether in the result these entries in any way affected Mr. Junkin's account? A.—Not at all. They did not appear in any statement we rendered Mr. Junkin.

Q.—Can you say when the knowledge as to the reverse of those certain entries first came to Mr. Junkin's notice? A.—I don't know anything about that. I don't know that he knows it yet or not.

Q.—Is there any question as to the date on which those reverse entries were made? A.—None at all sir. If you look at my cash book here you will see the 10th.

Q.—It seems to me perfectly clear that they were made on the 10th; the cash book shows it and the dates here bear it out. That is all thank you.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 P.M., May 4th, 1906.

MR. TILLEY: I put in a copy of the Pellatt & Pellatt account with the Manufacturers' Life Insurance. This is as the account appears except that it does not show the reversal of the entries, but that is explained by the witness. I think the copy I will put in will be sufficient for our purpose. (Marked as Exhibit 81).

MR. J. F. JUNKIN re-called by

MR. TILLEY: Q.—You are of course already sworn? A.—Yes.

Q.—Will you say what is the highest rate of commission paid by your company, to agents? A.—I might first explain that commissions consist of first your commission and renewals, and the commission on the first year of course is very much larger than on renewals. The highest contract we have on our books calls for 70 or 75, I am not sure which, graded down to about 20 or 25, according to the plan of insurance on the first year, and 7½ on renewals.

Q.—Whose contract is that? A.—That is the firm of E. R. Machum & Company in the Maritime Provinces.

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There is an extra $2\frac{1}{2}$ per cent payable on the second renewal.

Q.—With that firm? A.—Yes.

Q.—Mr. Machum is one of the shareholders of the company—is that the Mr. Machum? A.—Yes.

Q.—And that in a general way is his contract; what other contracts have you which would indicate the largest rates of commission you pay? A.—That contract I may say before leaving it is one we inherited from the old Temperance & General Life Insurance Company.

Q.—I was going to ask you about that afterwards, if you would just give me two or three of the contracts that would indicate the most liberal allowance you make the agents? A.—About 65 per cent, graded down to 20 or 25 according to the plan of insurance on first year, and $7\frac{1}{2}$ per cent on renewals is generally our maximum contract. In a few places where travelling expenses are very high, that is the travelling expense that the agent would be put to in organizing his district, we sometimes allow a little extra, particularly for the first year or two of the contract, while he is organizing his district.

Q.—That would be by reason of some special features of that particular agency? A.—Yes.

Q.—Take the case of Machum & Company, do they pay their own expenses out of that commission? A.—Yes, they pay their travelling expenses, their office rent, postage and telegrams, and express, and almost everything.

Q.—Does that apply to the ordinary agents of the company? A.—Yes almost all of our agents pay all kinds of expenses themselves, except those that are on a salary.

Q.—Of the expenses of their own agency? A.—Yes.

Q.—Were you going to say something about inheriting that contract of Machum's? A.—Yes, I might say in explanation of that contract that they have a very large district, that is they take the Province of New Brunswick, Nova Scotia and Prince Edward Island and they do a good deal of work that would devolve upon head offices in ordinary agencies, where the agency is smaller. The business is as it were concentrated, it comes to us in bulk, and the details of the business we are not concerned with.

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Q.—Has the rate of commission paid to agents increased by reason of the rebates allowed by agents to persons asking for policies? A.—Looking back over a period of years I would certainly say from my experience as an agent in the field, as well as my head office experience that it has certainly had that effect on the business of pressing the commissions upwards.

Q.—So that in that way it costs the company money, that is the practice of allowing rebates by your agents? A.—Yes, it really in my opinion comes out of the company in the long-run.

Q.—I think it has been said to me you had some idea by some resolution that was shown in the minutes of the Managers' Association, that by reducing the commissions you might stop the rebating? A.—If all companies were members of that Association, that is all companies doing business in Canada both in foreign as well as the Canadian, and they would loyally adhere to such resolution it would certainly have a tendency to decrease the rebates if the commissions were decreased, and the agents in the end I believe make as much.

Q.—And was that being proposed by you? A.—I could not speak for that, it has been discussed so often.

Q.—I think it is shown in the minutes some place, it has been said that was the case? A.—I think it is quite probable but I would not like to claim credit for it without remembering the actual facts.

Q.—I have been asked to ask you what your view is as to the policyholders voting, should the policyholders' vote be encouraged or discouraged? A.—It should be encouraged, if it were possible to get them to vote independently and on their own judgment.

Q.—Independently of what? A.—Of any influence brought upon them by any individual or set of individuals who might have some ulterior motive. I cannot see myself how it is possible to get an independent vote from the policyholders on account of them being so scattered, and I cannot think of any way that might be devised of really getting them together to vote in the interests of good management for the company. What I mean is this, take for instance the manager, it seems to me the manager of a purely mutual company can keep himself in power as long as—well, as long as he behaves himself in any way decently at all, in this way, that the agents are of course

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appointed mainly by the manager or by the subordinate officers that are under his control and supervision, and these agents are naturally friendly as a general thing to the manager so long as he is handling his company any way fairly well. Then the agents on the other hand control the policyholders—there is no doubt about that to my mind. I had a long experience in the field, began as a local agent, and I think I am safe in saying that there were never one per cent. of the men that I insured whose proxy I could not have secured to vote at any annual meeting of the company I was then connected with; so that if the manager (if that company had been a mutual company) had asked me to gather up all the proxies I could for him I could have got at least 99 per cent. of the proxies in favor of the management.

Q.—Do I understand you to put it this way, that the danger of the policyholder's vote is the intimate connection between the local agent of the company and the policyholders whose policies he has written? A.—Yes, on the one hand and his subordination to the management on the other. What I mean is that it becomes a one-man power absolutely.

Q.—Does that apply if the policyholders are not permitted to give proxies to the manager or any agent?

A.—I think it would in this way; that the agent would have the same influence on them to give their proxy to some other policyholder whom he was morally satisfied would support the management so that it would amount to the same thing in the end in any way.

Q.—So that what you suggest is that the control might possibly more completely fall into the hands of the persons actively engaged in the management of the company than it would even in a stock company? A.—I think there is no doubt about it.

Q.—Have you had any experience to know whether that is the case? A.—Only from observation; I have never been connected with a mutual company myself, but from 24 years' experience in the business and from observation and conversations with insurance men during that time I have always felt satisfied that that is the result of a policyholders' vote.

Q.—Does it come to this you would recommend that such a clause in legislation should be struck out entirely and give them no vote? A.—No, I would not go as far as that.

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Q.—In the way it exists now the section practically means nothing, except for people who live in the city or town where the head office may be?

A.—Yes.

Q.—That is right? A.—Yes.

Q.—Would you extend that so that others could vote or not? A.—There might possibly be some way of arranging a vote by mail as it were, a ballot vote by mail, if such a thing could be arranged. I have never given it sufficient consideration to know whether it is possible to work out such a scheme; I think it has been tried in some clubs and that kind of thing, I do not know how it would work in an insurance company; that is where the voter could poll his vote by mail in such a way that even the agent in his district would not know who he was voting for. I do not know whether that would be practicable or not.

Q.—That is a suggestion; I gather from what you say your ideas are not definite enough on that that you would care to be committed? A.—No, I have not really given that part consideration as to how it might possibly be worked out to give the policyholder more of a voice in the company.

Q.—There is no provision at all in the Act incorporating your company whereby policyholders have any representatives on the Board of Directors?

A.—No.

Q.—As a class I mean? A.—No, the directors might be policyholders or they might be all shareholders.

Q.—You speak of the President being a policyholder and not a shareholder? A.—Yes.

Q.—But that refers merely to his qualification to sit on the Board? A.—Yes.

Q.—But the scheme of your Act does not in any involve that he shall be there as representing the policyholders any more than any other director on the Board would represent policyholders? A.—That is right.

Q.—Now, so that we will not get too far from the evidence this morning, you saw that certain stocks that were purchased by Pellatt & Pellatt, including 400 shares of C. P. R., 125 shares of Dominion Coal, and 1,000 shares of Dominion Iron & Steel were bought by Pellatt & Pellatt in your name? A.—Yes, from the evidence this morning.

Q.—And it was entered in your ledger account in the books of Pellatt

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& Pellatt? A.—In Pellatt & Pellatt's book.

Q.—And subsequently the stock and the cash payment that were made were transferred from Pellatt & Pellatt's account where your stock shown to their account where the Manufacturers' Life Insurance stock was shown? A.—So I understand.

Q.—What have you to say about that? A.—Simply this, that it is all news to me, I never heard anything about it until two or three days ago; I had not the slightest idea that such a mistake ever occurred, or that my name was ever in any way connected with it.

Q.—Will you say then you did not know of that at the time? A.—I certainly did not.

Q.—Was anything of that nature discussed between you when the Commercial Cable stock was handed to Pellatt & Pellatt? A.—Nothing whatever.

Q.—Whose cheques were issued in payment of these three cash items that were paid? A.—The Manufacturers' Life cheques.

Q.—Have Manufacturers' Life cheques ever been issued in payment of your stock or anything on account of your stock? A.—Never.

Q.—No instance of that at all? A.—No.

Q.—You are quite positive about that? A.—Yes, I am sure of that.

Q.—And you say that at the time this stock was bought, and put into your name you were entirely unaware of that? A.—Entirely so.

Q.—It is pointed out that on one of these sheets that you refer to as being a weekly list of stocks held for the company that this C. P. R. stock is mentioned? A.—Yes.

Q.—Can you say that that sheet was ever presented to your Committee? A.—Yes, the stamp is on it, approved by the Executive Committee, October 2nd, 1902.

Q.—And you say that was stamped at the time? A.—Yes.

Q.—Does that appear in the minutes—I will read from this memo first: September 29th 200 shares of C. P. R. at 139¼, \$27,850; September 29th 200 shares at 138¾, and ¼ commission, making \$27,800; so that those are the two items of C. P. R. stock? A.—Yes.

Q.—And those were brought before the Executive Committee October 2nd? A.—Yes.

Memorandum just read by Mr. Tilley marked as Exhibit 82.

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Q.—In your minute books at page 175, where the minutes of the Executive Committee are shown this item appears: "Purchase of 300 shares at 140 5-8, 200 shares at 139, and 200 shares at 138¾, C. P. R. stock was approved;" that was your minute made at the time? A.—Yes.

Q.—That would be the minute that approves of the purchase shown by that slip? A.—Yes.

Q.—Then the items there would be the 200 at 139 and the 200 at 138¾? A.—Yes.

Q.—The 300 shares would not be part of that transaction with Pellatts? A.—No.

Q.—And you say those were passed on October 2nd? A.—Yes.

Q.—That was after the stock had been purchased? A.—Yes, the first meeting after the stock was purchased.

Q.—Do you think that is a proper way to approve of investments by a company, to make investments and then approve of it afterwards? A.—Very often it is ordered. It is quite possible there is another minute somewhere before that ordering the purchase or authorizing it.

Q.—I have not been able to find any; if there is I would like to see it. That seems to be a case where the investment was made or the stock purchased, and then the approval of the Committee given afterwards? A.—The official approval, yes, in some cases in investing in a stock or a bond. I would see a number of the directors during the week and get their verbal approval of it.

Q.—In some cases you would do that, and I suppose it follows in some cases you would not do it? A.—Yes.

Q.—Do you think it is a proper routine to go through? A.—I would almost always do it if it had not already officially appeared in the minutes approving.

Q.—Almost always does not carry it much further? A.—There were some subjects such as bonds I have felt so sure about that I have often purchased them without consulting anybody, bonds we had purchased before perhaps at a higher price or something of that kind, and the value of which I was satisfied of, and was satisfied that I could show it was a good investment.

Q.—That applies to bonds; what about stocks, does not the same thing apply to stocks? A.—I would not be so likely to do that with stocks unless I knew the opinion of the Board. It

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might have been discussed at the Board before without any formal resolution being passed.

Q.—It might have been, but it might not have been discussed at all? A.—It might not.

Q.—It might not have been mentioned to any of the members of the Board except between you and Mr. Pellatt until it would come up and be approved? A.—Yes.

Q.—And I wanted to know whether that is the proper way of investing funds of the company, your opinion? A.—We would be taking the risk of being turned down by the Board.

Q.—In the meantime the company's money has been used to pay for it? A.—Yes.

Q.—So that it would not be turned down very well by the Board after that, could it? A.—I think the Board would still be in a position to say, "You must assume this yourselves."

Q.—Do you lay it down as a proper principle, that if you are prepared to take that risk that the company's funds should be invested in that way? A.—Yes, if the Manager is prepared, or whoever is consulted in the matter, is prepared to take the risk I do not see—

Q.—Whether or not he is worth anything? A.—Well—

Q.—You think it is right that the company should in some possibility be left to the personal liability of directors or to the manager? A.—It would be largely how much authority the Board had given the manager.

Q.—I am asking you rather in the abstract, not whether you feel justified—I am asking you as a matter of practice what you think about that? A.—I think in actual practice the manager often has to assume a good deal of responsibility in these things.

Q.—Investments? A.—Yes; there are certain investments he can make today that he could not make tomorrow. A broker may come in and say "Well, I have \$20,000 of these bonds left, lay all the details before me."

Q.—You are getting back to bonds; however, you say possibly he may have an opportunity to buy a bond today he would not have to-morrow? A.—Yes.

Q.—That does not apply to stocks except you may think the stock market will not be as favorable tomorrow? A.—Yes.

Q.—That is the only way it could apply to stocks? A.—Yes.

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Q.—That is to say you might think, "Well, now, the market will be higher tomorrow and I had better buy this C. P. R. today?" A.—Yes.

Q.—Do you think that would be a sufficient justification for the manager buying that stock which he can get the next day, but he relies on his own judgment? A.—I think it would be in certain circumstances, for instance the other day, had I been able to learn, which I was not, that the Standard Bank were going to increase their dividend to 12 per cent. I could have bought the stock in the morning at 228; as a matter of fact there were sales at 228. I think I would have been quite justified in buying it that morning, knowing what my Board thought of that particular bank stock, and feeling quite satisfied that they would approve of the act.

Q.—You are getting a good many conditions into it when you say the Board satisfied to buy it—what you mean is the Insurance Company were satisfied to buy that as an investment any way— A.—I did not use those words, I think what I said was that the Board as a whole thought favorably of not only that class of stock, but that particular bank stock.

Q.—Starting with that proposition you think it would be a very fair assumption of duty by a manager with that knowledge, because he knew of something that was going to affect the market, to buy stock or even sell stock probably without consulting his directors? A.—Not so much knowing that something was going to affect the market as something was going to really enhance the intrinsic value of the stock.

Q.—That is probably putting it a little different, when you say there was going to be some improvement of the stock in that way, although paying extra dividends does not enhance the value of the stock, I suppose, but it does as an investment? A.—Yes.

Q.—You have stated your position about that? A.—Yes.

Q.—And is that the principle on which your company is acting, or is there no Committee or set of persons whom you consult with where you think something should be done quickly. do you do it of your own responsibility? A.—No, where I can find the members of the Board quickly I certainly consult with them. It once in a while happens that most of them are out of town, or that they cannot

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be seen just at the time being, and as a matter of fact I cannot remember any case where I have ever made a purchase of stocks without consulting at least one member of the Board, and I would know pretty well the opinion of the others, of some of the others at any rate.

Q.—That is your view, you think it even might apply to stocks listed on the Stock Exchange? A.—Yes, in certain cases.

Q.—These bought notes that were sent to you, are all made out in your own name—here is the bought note for the C.P.R. stock, J. F. Junkin, Esq., and every other bought note—I suppose you have examined them all? A.—Yes.

Q.—They are all made out in your own name? A.—Yes.

Q.—Did you notice that when they came in? A.—No.

Q.—Is that usual? A.—No, it happens sometimes, but not often. As a matter of fact I do not see those notices at all. The mail is opened by the Secretary and distributed to the different departments that it belongs to, and those would go to Mr. Franks.

Q.—You say your memory is not at all charged with anything about these bought notes at all? A.—No.

Q.—No notice that they are all stamped, or most of them are stamped, what stamp is that? A.—That is the stamp the Secretary uses when he is opening the mail. As soon as he opens a letter he stamps the date received on it.

Q.—Would a bought note coming in an envelope addressed such as this; would that be opened before you opened it? A.—Yes.

Q.—Would it be opened by any person else except yourself? A.—Yes, unless the envelope were marked personal.

Q.—In the ordinary course of your business, letters addressed to you are opened by the Secretary or some other official? A.—Yes.

Q.—And the minute it is opened is this stamp put on it? A.—Yes.

Q.—Would that stamp be on it before you received it? A.—Yes.

Q.—At any rate these marks were all stamped on the bought notes at the time they were received? A.—Yes.

Q.—Is your own mail stamped in the same way? A.—My personal letters?

Q.—Yes? A.—My own mail is generally marked personal on the envelope

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and that is not opened. I open it myself and it is not stamped at all.

Q.—As was shown here this morning, you have had some transactions yourself in these stocks, a personal account with Pellatt & Pellatt? A.—That is right; yes.

Q.—A margin account? A.—Yes.

Q.—So that you were dealing to some extent, at any rate, in these very stocks on your own account? A.—Yes; in the thirteen years that I have been connected with the company I had five, or at the most six, transactions with Pellatt & Pellatt.

Q.—Are you limiting all your transactions with Pellatt & Pellatt of that nature, buying stocks? A.—No.

Q.—You are referring now to your dealings with Pellatt & Pellatt? A.—Yes.

Q.—You say during all the time you have been in touch with them in insurance work you have only had five or six transactions with them? A.—Yes.

Q.—I am not concerning myself with the number of the dealings, we have the fact that these transactions took place by you with these stocks about that time? A.—Yes, somewhere about that period.

Q.—You would get some bought notes for your own stock? A.—Yes.

Q.—If they were addressed in the same way they would be stamped in the same way? A.—Yes.

Q.—So that there is nothing, I suppose that you could attach much importance to because these are stamped in the same way? A.—Yes.

Q.—So that there is nothing, I suppose, that you could attach much importance to because these are stamped? A.—Not so very much, unless it shows they passed through the hands of the Secretary.

Q.—Yes, but they would pass through the hands of the Secretary if they came forward even on your own stock? A.—Yes, if they were not marked personal; yes.

Q.—And the only matters of record that indicate they are not yours would be the minutes of the company in authorizing the C.P.R. purchase or adopting it? A.—Yes.

Q.—And that was the first of the transactions? A.—Yes.

MR. McLAUGHLIN: And the report of the Executive Committee.

MR. TILLEY: Q.—The record about C.P.R. stock is the only record that shows that? A.—Yes, both in the

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minutes and in the official statement presented to the Committee—

Q.—No matter how many places it appears, that is the fact, that was the first of the transactions that was wrongly entered there? A.—Yes.

Q.—Following out your idea as to the privilege that a manager should have as to investing on his own responsibility on some occasions, does not it put a large amount of the company's money in the hands of one man to control? A.—No.

Q.—Does not it displace the Board of Directors temporarily at any rate? A.—No, I do not think so. He could not continue doing that sort of thing if the Board of Directors objected; he is simply dealing so sure of the transaction that he feels satisfied the Board will approve of it if they have not already approved of it.

Q.—You think that is not very vicious when applied to transactions in stock on the Stock Exchange, stocks that are listed and purchasable to-day, to-morrow, or the next day, being a mere matter of price from the stock going up or down? A.—I do not think it would be well to carry it on to any great extent; what I mean to say is there may be exceptional cases where a manager might be justified in assuming that his Board would approve of what he does.

Q.—I understood you to say in a general way that besides the account you had with Pellatt & Pellatt you had other accounts or had had other transactions in stocks on your own personal account? A.—Yes.

Q.—On margin? A.—Yes.

Q.—And the kind of stock that we have been mentioning as dealt in by the Manufacturers' Life? A.—Yes.

Q.—I just want to verify some of these papers you have put in without referring to them to any extent. This I believe is the claimant's statement that must be filed with your company. Under the heading "Policy B," I suppose that refers to the inquiry sent out by the Commission? A.—Yes.

Q.—Number 1, claimant's statement, and then the claim; attached to it is the declaration to prove the age of the assured? A.—Yes, the declaration as to proof of age is not required in all cases.

Q.—Not required if the age has been already proven? A.—That is the idea.

Q.—Is this the form of claimant's statement that you use now? A.—Yes.

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Claimant's statement and declaration filed as Exhibit 83.

Q.—Then Exhibit 84 will be your form of policy loan agreement? A.—Yes.

Q.—And there are two forms of that in that Exhibit? A.—Yes.

Q.—We have written "Now in use" on the top of the form that is in use at the present time by your company? A.—Yes.

Q.—And attached to that is the statement made by your company as to the procedure you adopt when the loan on a policy has fallen in arrear? A.—Yes.

Q.—What is this document? A.—This is what we call a non-forfeiture agreement.

Q.—What is the purpose of it? A.—A few years ago we put a clause in our policies making them automatically non-forfeitable, that is so long as there is sufficient of the reserve left the premium is paid by the company automatically. It prevents the policy from lapsing so long as there is sufficient of the reserve left to pay the premium, and then the agreement is one extending that privilege to the old policy so far as the old policyholders elect to have it made applicable to their policies.

Non-forfeiture agreement filed as Exhibit 85.

Q.—There is a provision here that you shall treat the premium then due as paid, and the amount of such premium with interest at 9 per cent. per annum compounded yearly shall be a first lien on the policy, and it explains the 9 per cent. is made up of 6 per cent. for interest proper, and 3 per cent. for expenses; is that a fair provision for the insured? A.—I think it is, taking everything into consideration.

Q.—Explain why? A.—Doing that, it entails a good deal of extra work, both in the head office and branches. The day that that premium falls in arrear we open up a debit and credit account with that particular policy, just the same as a wholesale house would one of their customers, and the policyholder is credited with the total amount of his reserve, and debited with the amount of his premium, and then the agent in the meantime keeps on of course making every reasonable effort to induce the man to pay up his premium, and that is one reason why, I may say, we charge this three per cent. for the expenses to make it in the interests of the policyholder to

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pay his premium. If the rate of interest is low he is more inclined to let his policy run on. He will say to himself "Money is worth five or six per cent. to me, the bank is charging me perhaps 7; I might better pay the bank first and leave the insurance money till after," and the effect of that would be the very opposite of what we desire by this non-forfeiture arrangement. Our whole idea in the non-forfeiture is to make the business more persistent, to give the agent an opportunity to get after these delinquents, and get the premium in.

Q.—Have you any method that you adopt to ascertain the health or habits of persons who are insured when their premium has got into arrear? A.—Under the old system that was absolutely necessary, that is if a man allowed his policy to lapse the conditions of the policy were he could only renew it providing he was still in good health.

Q.—So that you would have to find that out; have you any means that you adopt now for the same purpose where the policy is not of that nature? A.—No, we have no particular system.

Q.—What do you mean by particular system, do you send out forms to be filled in in such cases? A.—You mean where a policyholder has run behind?

Q.—Where he has run behind or even where he has not run behind? A.—We have to a limited extent in certain districts where we were doubtful about the business—

Q.—Are you talking now about persons who have got behind in their premiums— A.—The policyholders in general. We have, I remember in one case in particular we sent an Inspector to certain districts where we thought the medical examiners had not been doing their duty properly, we sent him to report on the medical examiners and the policyholders as well.

Q.—That arose then from that special reason that you thought the examination might have been carelessly or improperly conducted? A.—Yes.

Q.—And then other than from some such reason as that have you any such means to adopt? A.—No, except when the application comes to us in the first place; we got confidential reports sometimes.

Q.—Do you ever in any way indicate to agents whether it is desirable or undesirable from the company's standpoint to persistently attempt to collect the premium? A.—If the policy

has lapsed and we know for an absolute fact that the individual is a bad risk, we sometimes I think have given the agent to understand that we do not want him to put on any particular pressure to revive that policy.

Q.—That is you rather tend to lull the man to sleep, let him pass over the time to pay the premium? A.—You mean before the policy has lapsed?

Q.—Yes? A.—I do not think there has been anything of that kind.

Q.—After the policy has lapsed? A.—With this non-forfeiture after the policy has lapsed we might advise the agent not to press the man for payment of premium.

Q.—Have you any system you adopt for taking care of such matters? A.—No.

Q.—Have you forms you send out of inquiry where the policy has lapsed? A.—I do not think so, I do not remember of any such; we certainly have no general practice of that kind, it might be done in a particular district where we thought we had been fleeced by a medical examiner and an agent conspiring together or something of that kind.

Q.—To get insurance? A.—Yes.

Q.—Then you are rather indicating that you do when you find that out what you would have done originally by letting the insurance lapse? A.—Yes.

Q.—But do you not go farther than that? A.—I do not think so.

Q.—You have no form sent out to be filled in by your agent or by other persons in the locality when a man's policy has lapsed to ascertain whether it is wise to try to collect that premium? A.—We have a form to send out for the assured to sign himself—

Q.—But other than that? A.—No, I think not.

Q.—But you do send it out for the assured to sign; do you ever refrain from sending that form out to the insured? A.—No.

Q.—You always send it in the case of every lapse? A.—Unless we know from personal knowledge that the man is a good risk, we may in a few cases not ask this form to be signed at all.

Q.—You may not ask the form to be signed because you may already know it was a good risk? A.—Yes.

Q.—You may already know it was a bad risk, then what would you do?

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A.—We would ask him then to sign the form.

Q.—Then you might indicate to the agent, might you, whether it was wise too look after that policy or not?

A.—If he has signed the form stating he is still in good health, and we had reason to believe to the contrary we would ask him to submit to a new examination.

MR. TILLEY: I will put in the statements furnished by the company showing the capital stock as held at the formation of the new company, and as held at the present time, with a record of the transactions that took place.

(Statements marked as Exhibit 86).

Then I put in a copy of the charter of the Prudential Securities Company, Limited. (Marked Exhibit 87).

Q.—I wanted to ask you at what price bonus stocks were disposed of by the company? A.—The Mexican stock was never disposed of at all, it was distributed when the company was winding up in proportion to the amount of stock held by each shareholder.

Q.—The actual stock itself was divided up amongst the shareholders? A.—Yes.

Q.—And your company, as one of the shareholders, got its share of the Mexican stock? A.—Yes, amounting to 50 shares.

Q.—Being one-tenth, or what? A.—One-fifteenth of the whole amount.

Q.—The balance went to the other shareholders? A.—Yes.

Q.—It is said there were some shares acquired after the company was formed, not that were originally taken over in that lot, that you had some 700 shares when the company disbanded? A.—Yes, 750.

Q.—And you took over originally how many? A.—350.

Q.—So that you must have got 400 shares by purchase or otherwise after the company was formed? A.—Yes.

Q.—And that has nothing to do with the Manufacturers' Life? A.—They got their share of that too.

Q.—Those shares were not got from the Manufacturers' Life? A.—No, they were in no way connected with the purchase of them.

Q.—What price was realized for the Mexican stock you got, or did you sell it? A.—Yes, we sold it some time after, we sold it at 65½.

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Q.—What date was that? A.—I have not got the date here. Mr. Franks says the date it was sold was December 5th, 1905.

Q.—What about Electrical Development stock? A.—The greater part of it was sold at 51¾, and there was a small amount sold at 62¾ net; I think that was the highest price the stock has ever reached.

Q.—And what dates, have you got the dates? A.—75 shares that were sold at 62¾ was May 22nd, 1905, and the 375 shares that realized 51¾ were sold on June 9th, 1905.

MR. TILLEY: I will put in a copy of the charter of the Canadian Securities Company, Limited, dated 5th March, 1903, the corporate name is, "Canadian Securities Company, Limited." The capital stock is \$500,000, divided into 5,000 shares of \$100 each. The head office of the company is at Toronto, and the provisional directors were, Lloyd Harris, Henry Mill Pellatt, James Mason, Samuel G. Beatty, and Robert James McLaughlin. (Marked Exhibit 88).

Q.—Have you anything you want to say about the present state of the Electrical Development and the Mexican accounts? A.—Except to explain the proceeds realized from the stock in the Electrical Development was placed to the credit of the bond accounts in these two bonds, the net result being as follows: That taking the market price of the bonds at the end of the last year in the case of Electrical Development, the market value showed \$136,125, and the cost to the company after crediting the account with its share from the Prudential was \$132,125, so that those bonds stood the company a profit of \$4,375. In the same way the Mexican Light & Power Company bonds, of which the company held at the end of the year \$42,500, showed a profit of \$4,481.25.

Q.—Whatever was realized on the bonus stocks would be profit; they cost nothing in your way of keeping the books? A.—I am speaking now of the profit to the company in the way of market value over ledger value, over the actual cost in the company's books.

Q.—That was a fact, that the stocks, whatever was realized from stocks would be entirely profit to the company? A.—Yes.

Q.—In your way of keeping the books the cost of the stock did not

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appear; it was all put against the bonds? A.—All put against the bonds, yes.

Q.—The shareholders in this company were the same as the directors whose names I have given; what was the object of incorporating the Canadian Securities Company? A.—It was incorporated as a purchasing agent. The real object was largely to be a purchasing agent for the Manufacturers' Life, that is to buy bonds to the best advantage, and the idea was to deal in bonds entirely. To buy bonds to the best advantage it is necessary to buy in large blocks, that is to buy whole issues. Very often a city may be making an issue of three or four or five hundred thousand, or a public utility corporation may be making an issue of a million or a million and a half or two millions, and that puts it beyond the power of a company the size of the Manufacturers' Life to tender when you get up into figures of those proportions and the idea was that we could get securities practically at cost through having a corporation of this kind that would be at liberty to tender for whole issues and sell elsewhere those that the Manufacturers' Life did not require.

Q.—The original shareholders in the company were all directors, then, of the Manufacturers' Life, or shareholders, were they substantially? A.—All except the Manufacturers' Life itself.

Q.—And the Manufacturers' Life itself was a shareholder to what extent? A.—One-half.

Q.—That would be \$20,000.—A.—Yes.

Q.—So that originally the Manufacturers' Life Insurance Company took one-half the stock and paid for it in cash? A.—Yes.

Q.—And the other parties were all shareholders and directors in the Manufacturers' Life Insurance Company? A.—Not all directors, some of the shareholders were directors.

Q.—They are all shareholders and almost all directors? A.—Just put your question again.

Q.—I say that the Manufacturers' Life Insurance Company took half the stock and paid for it, \$20,000? A.—Yes.

Q.—And the balance of the stock was all taken by parties who were shareholders, and almost all of them directors, of the Manufacturers' Life? A.—I would like to see the stock book, so that I may be accurate.

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Q.—David Dexter is pointed to here, was he a director? A.—No, he is in no way connected with the Manufacturers' Life.

Q.—S. G. Beatty, he was a director? A.—Yes.

Q.—J. F. Junkin, D. D. Mann? A.—Yes.

Q.—R. L. Johnston? A.—No, he is not a director.

Q.—He is one of the firm of solicitors? A.—Yes.

Q.—R. J. McLaughlin, he was a director? A.—No, not at that time.

Q.—A shareholder, and he was one of the solicitors for the company? A.—Yes.

Q.—Has the list of shareholders in the Canadian Securities Company, Limited, continued the same down to date? A.—No.

Q.—What substantial change has been made? A.—The Manufacturers' Life have sold their holdings.

Q.—To whom? A.—I do not just know how the transfers went through.

Q.—It appears here in the name of Mackenzie & Mann and A. D. Davidson? A.—I understand Mr. Davidson is the real purchaser, it was purchased for him.

Q.—Who is he? A.—A Winnipeg gentleman.

Q.—What does he do there? A.—In the land business.

Q.—Is he connected with MacKenzie & Mann? A.—Yes, indirectly he is; he sells land all through the North West for the various railway companies and other syndicates who own land in large blocks.

Q.—You say while the stock that the Manufacturers hold stands mainly in the name of MacKenzie, Mann & Company you think it is held for Davidson? A.—Yes.

Q.—There is some of it in Mr. Davidson's name, you know that? A.—No.

Q.—There is some, 100 shares, and the balance is in the name of MacKenzie, Mann & Company, and you think they hold it for him? A.—That is what I understood, that is for Davidson and another man associated with him, Mr. McCrae.

Q.—Your company has bought from the Canadian Securities Company, Limited? A.—Yes, there are sixteen transactions.

(Statement of purchases made through Canadian Securities Company filed as exhibit 89).

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Q.—What is this list? A.—I have not seen this.

Q.—That is said to be a list of the securities the company has handled, can you verify that? A.—Yes, that is correct, that is as far as I know.

(Statement of securities handled by Canadian Securities Company marked as exhibit 90).

Q.—(Mr. Tilley reads exhibit 90): Those Imperial Rolling stock bonds were the bonds of the company we referred to the other day? A.—Yes.

Q.—And that is the MacKenzie & Mann Company? A.—Yes, largely.

Q.—What dividends has the Canadian Securities Company, Limited, paid? A.—Ten per cent.

Q.—What bonuses has it given to its shareholders? A.—Declared one bonus of 40 per cent.

Q.—It has been in existence from April, 1903, and in the three years it had paid dividends at the rate of 10 per cent., and paid a bonus of 40 per cent.? A.—Yes.

Q.—So that it has been very successful? A.—Yes.

Q.—And I suppose could declare another dividend now of a substantial amount, or at the time the Manufacturers left, if it wanted to? A.—I understand it is in a position to keep up a ten per cent. dividend.

Q.—It is a profitable company? A.—Yes. And one-half of all these profits have gone to the Manufacturers Life.

Q.—And the other half have gone to its Directors? A.—Yes, shareholders.

Q.—We will say Directors, because it is substantially Directors.

MR. McLAUGHLIN: No.

MR. JOHNSTON: There are outsiders belong to it; there is Archer, Dexter, Wilcox, Mitchell, Davidson, and large holders.

MR. TILLEY: But you put it that way, that the other one-half goes to the other shareholders? A.—Yes.

Q.—And a good deal to Directors of the Manufacturers' Life and that MacKenzie & Mann or Davidson, whom they represent? A.—They have had no dividend at all.

Q.—It either had been going to the Manufacturers' Life and to some of its Directors, or it will now be going to MacKenzie & Mann or the person they represent, and— A.—It will go to the shareholders whoever they happen to be.

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Q.—What was that money made out of chiefly? A.—It was made out of those bonds that were handled.

Q.—You could not say very much would be made of these municipal bonds, or debentures, there would not be a great deal of profit I suppose in the list of debentures, would there? A.—No, not a very large profit in debentures.

Q.—There must have been some substantial profit in some of these transactions? A.—The most profitable investment there was the Rolling Stock bonds.

Q.—And those were the bonds of MacKenzie & Mann, or the Canadian Northern? A.—Yes.

Q.—How much of those bonds did the Manufacturers Life buy—

MR. McLAUGHLIN: I submit the whole list of everything that the Manufacturers Life has bought from this company be read; that will cover everything.

MR. TILLEY: This exhibit shows Imperial Rolling Stock Company, \$106,000, is that right? A.—Yes.

Q.—Taken by the Manufacturers' Life from the Canadian Securities? A.—Yes, out of an issue—two issues, of about a million I understand, so that about only 10 per cent. of these bonds went to the Manufacturers' Life, so that the greatest profit in the company was made out of outsiders that had no connection with the Manufacturers' Life. Those bonds were largely sold in Boston and Chicago, about 90 per cent. of them, and consequently the Manufacturers' Life got half the profits on those bonds, although they only purchased 10 per cent. of the bonds themselves.

Q.—Do you want to read the list of the other securities you bought besides the Imperial Rolling? A.—Yes, I would like to read the list.

JUDGE MacTAVISH: What is the object of this?

MR. TILLEY: There has been such a desire to read it.

MR. McLAUGHLIN: I think it gives a fair impression if everything is put in.

JUDGE MacTAVISH: But if they are shown on an exhibit it seems to me it is rather a waste of time to have it read by the witness.

MR. McLAUGHLIN: As representing the company here I have a heavy interest to look after, and if there is anything that can be in any way twisted to cast reflection on the Manu-

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facturers' it is read, and the rest can be put in as an exhibit.

MR. SHEPLEY: I do not think we have been doing any twisting.

MR. McLAUGHLIN: I am not casting any reflection on my learned friend, but I feel that way.

JUDGE MacTAVISH: We desire to be fair to everyone, and if there is that feeling, even if there is no ground for it, the document had better be read now.

(Mr. Junkin reads the whole of exhibit 89.)

MR. TILLEY: Is there anything else you want to say about that? A.—Except that the realization so far as the Manufacturers' Life is concerned when we sold our stock on account of it not being considered as coming under the term "investment company" by the Insurance Department, it realized us a profit of \$8,000, and the dividends we had already received, taking half of it as being for interest, that is 5 per cent., and the other half for profit, would make a profit of over \$10,600 to the company, whereas the Canadian Securities Company made of the Manufacturers' Life probably in the neighborhood of about \$4,000, made a profit on the bonds during the year sold to the Manufacturers' Life of probably \$4,000, or considerably less than half of what the Manufacturers' Life made from the Canadian Securities Company.

Q.—That completes it? A.—Yes.

Q.—Mr. Junkin your company issues what you call a five per cent. gold bond? A.—Yes.

Q.—What is the nature of that insurance? A.—I would rather Mr. Papps would answer that question.

Q.—You could answer it I think for our purpose? A.—In layman's language I might describe it; it is very much the same as, take for instance, a gold bond on the twenty years' endowment plan is very much the same as the ordinary 20 years' endowment, except that at the end of the term the insured has the privilege of leaving the amount of his policy, the face value of his policy, with the company enjoying five per cent. interest on it.

Q.—He is supposed to leave the amount of his policy with the company? A.—He has that privilege. If he surrenders it to the company at the end of the twenty years' period, then he receives 25 per cent. more than the face value of his policy.

Q.—That is if he takes a surrender at the time and takes his money he

would get say \$1,250 in round numbers, instead of the \$1,000 that his policy would be for, on its face? A.—Yes.

Q.—If he elects to take the interest what does he get? A.—Five per cent. for a period of 20 years.

Q.—On what? A.—On the \$1,000.

Q.—So that he has in reality at the end of the time, when the policy becomes a claim, an interest of about \$1,250 in the policy? A.—Yes.

A.—And he leaves that with the company, and he gets 5 per cent. on a thousand dollars? A.—Yes.

Q.—And at the end of the time he gets the thousand dollars? A.—Yes.

Q.—Don't you think the ordinary person that takes a policy of that class thinks he is getting the 5 per cent. on all his interest in that policy at the time it becomes a claim, on the whole \$1,250, if that is what his interest is? A.—I do not think so, because it is stated in a fixed amount.

Q.—Don't you think the idea of 5 per cent. gold bond gives to him that impression, that he gets 5 per cent. on his money, whatever money he has in his policy? A.—He might draw that conclusion.

Q.—Is not that the conclusion that is generally drawn? A.—I do not think so.

Q.—You think that persons taking that form of insurance thoroughly understand the transaction they are entering into? A.—I think they do. It is generally put to them this way, for instance, if it is a ten thousand dollar policy, the agent will say, "here is an assured income to you at the end of the period, of \$500 a year for the next twenty years."

Q.—Was it not a fact that a few years ago some American Company was disposing of those five per cent. gold bonds, and owing to some complaint as to what the parties believed when they were buying them, that they had to take them all up again, take a good number of them up again? A.—I think there was something of that kind in Montreal through an agent.

Q.—That was accomplished to a great extent, was it not, by reason of the name of the policy, five per cent. gold bond? A.—Partially, and partially by the indefinite wording of the policy. I do not think their policy was by any means as clearly worded as our policy is, the contract itself.

Q.—Would you go this far, to say that the name of the policy might mislead a person who does not carefully

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read through the whole policy? A.—I do not see how it could in our case, because the whole emphasis is put on the amount of annuity he is going to receive.

Q.—Suppose the emphasis is put on the name, "five per cent. gold bonds," is there not something in that, and was not there something in it in the case you have referred to? A.—There might be something in it.

Q.—Not a very desirable name for a policy? A.—I would not say that.

MR. McLAUGHLIN: I suggest that the policy be produced.

WITNESS: Yes, I think that is a good suggestion.

MR. TILLEY: Q.—I am not criticizing at all the wording of the policy or the form of the policy. I am simply asking you whether that name given to policies might not be misleading; it is a form of policy used by many companies? A.—Yes, by almost all companies.

Q.—I am not making any attack on your form of policy. I am asking you whether it is a proper name for a policy? A.—I think it is if the document is properly drawn.

Q.—It might not be, if the document was indefinite, you mean, in its terms? A.—It might be misleading in its terms if the document were also misleading.

Q.—It depends on the terms of the policy itself; might it not be misleading to many persons who do not read the terms at all? A.—It might, sir, possibly be.

Q.—You know there are people who take policies and do not read them through? A.—I think if they do not read a policy they are generally very particular about what the results of the policy, that is the fixed results, definite guaranteed results are, and that is very clearly set out in this case, both in the estimate forms that are furnished, that is the blank forms furnished for describing the policy, and also in the policy itself.

Q.—That may be very true that the estimate is given in other literature and by the agent and in the policy itself, but is not a certain estimate implied from the very name itself, five per cent. gold bond, that the man is getting five per cent. on his money, whereas he is only getting $3\frac{1}{2}$ per cent? A.—No, there is no attempt to say he is getting five per cent. on his money, because unless he is a very ignorant man he could not think any such thing. He is getting five per cent. on the

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bond itself, and that bond he pays for in twenty instalments of so much a year.

Q.—Why is it called a bond instead of policy? A.—It really becomes a bond at the end of the time.

Q.—I suppose that every policy that obliges a company to pay anything is a bond to that extent? A.—This compels the company to pay a fixed and definite income at the rate of five per cent. on its face for a fixed period of years, 20 years.

Q.—But not a definite income on the whole money the man is entitled to? A.—No, there is no attempt to show that, because the man has been insured in the meantime.

MR. McLAUGHLIN: This is cross-examining the witness on the contents of a written document which is here and ought to be produced.

MR. TILLEY: I think I have stated the position fairly that we are not criticizing your form of policy at all. I am dealing entirely with the name which is common to several companies here in Canada.

MR. McLAUGHLIN: I submit you should produce the form of policy to show as far as this company is concerned their policy is definite.

MR. TILLEY: Q.—Is any examination or training required of your agents before you employ them? A.—We have a blank form we ask them to fill in giving their experience in the Life Insurance business and a history of their past record in various ways, and what volume of business they have been able to produce annually, and how much they expect to produce, and so on.

Q.—But you employ persons in all conditions of education and all conditions of habit so long as you are personally assured? A. No, we do not, we are very particular about their habits, or try to be.

Q.—What means do you take to ascertain what their habits are? A.—We make private inquiry through individuals as well as through Commercial Agencies.

Q.—Then you appoint an agent for a particular place or a particular locality? A.—Yes.

Q.—What you would call a general agent? A.—Yes.

Q.—He is free then to employ any person he desires to act as sub-agent under him? A.—To employ them provisionally. He forwards the contract to us, and we make our inquiry

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ies then regarding that sub-agent as well.

Q.—Do you make independent inquiry about him? A.—Yes.

Q.—And you then must approve of the contract, must you, with the sub-agent? A.—Yes.

Q.—Then besides sub-agents they employ canvassers, men to drum up Insurance? A.—Very often.

Q.—Do you retain any check on that at all? A.—If it is a man who is going to give his whole time to the business he must reduce the contract to writing and submit it to us for approval, but if he is what they call in England a part time man, that is he has some other line of business and he is only devoting his spare hours to the life insurance business, very often there is no contract with him at all; he is not really the recognized agent of the Company.

Q.—He might not be the recognized agent of the Company but he is the man that sees the person that it is proposed to insure? A.—Yes, but he scarcely ever closes the business; he simply introduces the business to the sub-agent or to the General Agent.

Q.—And he does a certain amount of the negotiating? A.—Yes.

Q.—Sometimes I suppose doing it all? A.—Very rarely; in these days competition has become so keen that it requires experts now to close the business.

Q.—I said sometimes closing it off? A.—Once in awhile.

Q.—He may be a man of no education at all and of no character? A.—Well, if the character of the General Agent is right he won't employ men of that character.

Q.—He wants to get the Insurance, no matter who brings it to him? A.—He won't employ his sub-agent or part time man, men that are not of good character.

Q.—I suppose that would depend upon the particular business he was trying to insure, he would employ some person that he thought could influence them would he not? A.—I can only speak from my own experience.

Q.—Your own experience in that in Montreal for a time? A.—Yes.

Q.—How did you find it there? A.—I found once in awhile I would get hold of a man that disappointed me, that is he would not be the kind of a man I took him to be, and I would take the first opportunity of getting rid of him, as soon as I found

out he was not doing his business straight.

Q.—You mean, I suppose, there would be then agents who were not of the same rule as yourself, and who would allow more laxity? A.—I believe in all Companies they get hold of men who do not do their business properly.

Q.—Do not do it properly, and do not do it honestly? A.—And do not exercise the care they should in selecting their assistants.

Q.—And do not do it honestly I asked you? A.—Yes, I believe there are such men in the business.

Q.—Make misrepresentations? A.—Yes.

Q.—And there is nothing that you know of in the way of Legislation is aimed at? A.—Nothing that I know of.

Q.—The persons who are insured I think you said are very careless, or some of them are, very careless about reading their policies? A.—Yes some of them are.

Q.—And some of them would not understand them if they did read them? A.—Some.

Q.—And I suppose that applies in a place as you have mentioned like Montreal where the language used by many of them is different from the language of others? A.—In our Company we issue policies in both languages there.

Q.—Do all Companies do that? A.—Not all.

Q.—Can you suggest anything that would be of assistance in preventing that sort of thing? A.—No, the only thing that I can think of is that the Insurance Department should be given, if they have not already that authority, sufficient authority to say whether the contract being issued by the Company is sufficiently clear.

Q.—You say it might be well to have the wording of every policy submitted? A.—Yes.

Q.—And approved before the policy could be issued? A.—I think they are submitted now, in fact I am pretty sure they are. Every new form of policy we issue we send a copy of it to the Department at their request. That is understood we shall do so, and I presume the object of that is that they may criticise the document if they find anything wrong with it.

Q.—Have you met cases in your experience down in Montreal or in

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Quebec Province where the agent has not interpreted properly the application forms and the policy to the proposed insurer? A.—Yes.

Q.—You have known that, that is where the insurer himself speaks French probably and the policy is in English you have known of cases where the agent would mis-translate it? A.—No, I do not know that we have ever sent English policies there to a French applicant. We generally judge from the names.

Q.—I am not speaking of your Company? A.—Of Insurance in general?

Q.—Yes, to get the general conditions? A.—Yes, I might say that I remember one case of an agent that made the statement himself that one of his insured—this was not a man who was insured in our Company—one of his insured was not aware of the fact that it was not necessary to take out a new policy every year, the same as it would be in fire Insurance.

Q.—You think then there is a trouble that exists there at any rate by reason of the applicant's not understanding the transaction they are entering into? A.—Yes.

Q.—And in some cases the agents do not assist them to understand it? A.—In some cases.

Q.—Could that be improved by licensing the Insurance agents? A.—I do not think so. My reason for that is that there was a license required once in this Province and I do not think it had any tendency to improve the class and standing of the agents, that is the agents during that year on the average did not average up any better than they did the year before or the year after.

Q.—It was not in existence a very long time? A.—No.

Q.—Would it be feasible to pay agents by salary and not by commission? A.—Yes.

Q.—Would it be an improvement? A.—In some respects I think it would be more expensive to the Companies, but they would probably have on the average a better class of representatives.

Q.—And it would effectually stop rebates? A.—Yes.

Q.—And probably would introduce a better class of agents? A.—Yes.

Q.—More intelligence on their business? A.—Yes.

Q.—And that might stop some evil practices by agents in taking out pol-

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icies in some places for some Companies? A.—Yes, it might.

Q.—Who engages the doctors and appoints the medical examiners? A.—They are appointed by the Chief Medical Referees at Head Office.

Q.—And what care is taken to ascertain their qualifications and habits? A.—We have a blank form to begin with in the same way, not the same kind of form, but in the same way that we have in respect of the agent—that is in the form of an application for a position of local medical examiner at a certain place. The doctor fills in that setting out his qualifications, that is how long he has pursued the studies, in what schools, where he graduated, and when.

Q.—And such information? A.—What Companies he has examined for and giving the names of references as to his standing in the profession.

Q.—Must every applicant be examined by some Doctor who has been approved in that way before you will insure the applicant? A.—Yes.

Q.—Do you not let some applicants go through on the certificates of other doctors not passed in that way? A.—Occasionally, but not until—that form accompanies the first examination that comes in.

Q.—From the Doctor? A.—Yes, so that we can pursue our inquiries before issuing the policy.

Q.—That is the invariable practice? A.—Yes.

Q.—Do you know whether that is so with other Companies? A.—I do not know.

Q.—The doctor is usually the friend of the Local Agent? A.—Very often, he is recommended by the Local Agent.

Q.—And the Local Agent gets his commission if the Insurance is accepted? A.—Yes.

Q.—Have you found anything vicious in that? A.—Yes, in some cases we have found or have believed that the agent and the doctor were too friendly. Of course if the Doctor is the right man that would not make any difference but if he is a man that is easily influenced he might want to show favor to his friend by putting through a risk that was not as good as it ought to be.

Q.—Is there anything in your form that requires the doctor in any way to explain to the applicant what he understands the transaction to involve? A.—No. You mean referring to the contract of Insurance?

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Q.—Yes? A.—No, except he ask for the amount. The doctor fills in on his form what amount of Insurance the man is applying for and I think the plan.

Q.—That is on your form? A.—Yes.

Q.—In the cases that you have referred to where the applicant is not always fully aware of what is being done would it be of assistance to require the doctor to fully explain to the applicant what the contract of insurance involves? A.—I do not think you could do that because the doctor might not know anything about it himself.

Q.—Do the doctors all, who examine for these Insurance Companies, understand fully what the different plans of Insurance are and the different policies involved? A.—Not all. Those who make a specialty of making examinations for life Insurance Companies, as in the larger places such as Toronto, Montreal and Ottawa and so on, in time as a usual rule they become fairly familiar with the different plans and have an understanding of them. It really ought to be one of the matters that the doctor should inform himself on, because an applicant might be good for one plan of Insurance and he might be a perfectly good risk for instance for a ten year endowment and might not be a good enough risk to pass for a whole life policy, so that the Doctor really should in the Company's interest have a knowledge of Insurance matters.

Q.—In you experience in Quebec, not particularly with regard to your own Company, but your experience in Insurance work there, did you find any evil arising out of a lack of knowledge of the doctors and the fact that a doctor would probably speak French and the applicant and all the papers would be in English, or vice versa? A.—No not in that way, because they would not be in our case.

Q.—I am talking generally, not about your Company? A.—You are referring to the period of time when I was Agent in the Province of Quebec.

Q.—Yes, and from any knowledge that you have gained since as to the condition that existed there? A.—Yes, I think it quite often happens that the French applicant there has signed English applications when he really did not know what he was signing.

Q.—Did not appreciate the contract he was entering into? A.—Yes.

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Q.—You furnish the applicant forms in both languages as well as policies? A.—Yes, our policies, applications and all our literature are published in French as well as English, and used in the Province of Quebec.

Q.—Mr. LeBeuf would like to know who does the translating from the English into the French? A.—Mr. Warnault of the Canada Life does it for both the Canada Life and ourselves at present; I do not know how long.

MR. SHEPLEY: Subject to any matters arising in future I rest here the investigation into the Manufacturers.

MR. SHEPLEY: Q.—At Mr. McLaughlin's request I ask you whether the Manufacturers has ever made a loss upon a call loan? A.—We have never lost a dollar on a call loan in the history of the Company. We have never lost a dollar on mortgages, on real estate on any mortgage made since I became Manager eleven years ago, and the bonds speak for themselves. The stocks have shown us a considerable profit.

MR. KENT: I would like Mr. Junkin before he leaves the box to go on record again about this question of question of voting by a policyholder. If I have properly interpreted his thought, Mr. Junkin is not in favor at all of permitting a policyholder to vote, because he attaches to that right an impossible condition. The Manufacturers' Life by their by-laws or rules give a policyholder of a thousand dollars and upwards the right to vote, is it not so? A.—Yes.

Q.—It is impossible to prevent that policyholder from combining with other policyholders possibly to swamp the Management if they feel so disposed. I want to learn from you if you are in favor of continuing that right to a policyholder without any of those impossible restrictions, or whether you are really not in favor of striking out that privilege altogether? A.—I am glad your Honors have brought this matter up, because if I have given that impression that I am opposed to policyholders voting I have done it unintentionally. I would like if there is any means that can be devised of getting a real policyholder's vote, I would like to see the policyholders have a vote. I do not say at all that it is impossible. I am in hopes the Commission will see some way of working it out. I would like to see the policyholders in a Company have a vote, I believe they would take more interest perhaps in assisting the

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agents, take a greater interest in the Company.

JUDGE MacTAVISH: Q.—Would you like to see them exercise it? A.—Yes, if it can be done as direct from the policyholder, but if it is to be entirely of—

MR. KENT: Q.—If you could know they were going to vote, that is what you mean? A.—Yes, that it was really the policyholder that was voting, then I think it would be in the interests of Life Insurance for the policyholders to have a vote.

JUDGE MacTAVISH: I don't think you understood Mr. Kent's question, if you knew how the policyholder was going to vote you would have no objection to his voting? A.—No, I did not mean that; I meant that you are really getting a vote of the policyholders and not practically a vote of the agents or some clique of agents.

MR. SHEPLEY: Or shareholders? A.—Yes, or any other clique; then I say by all means let the policyholders have a vote, but the only way I can think of that that can be arranged or might be arranged would be by some ballot system through the mails.

MR. KENT: Or by personal vote? A.—Yes. Then of course that limits it to the policholders in the immediate vicinity of the Head Office.

Q.—If the policyholder chooses to go to the expense of going to the meeting to vote you would be in favor of giving to every policyholder a personal vote? A.—Decidedly. I would like to see every policyholder in Toronto exercise his vote in our Company.

Q.—And you would like to see every policyholder in Montreal vote, come to Toronto to vote? A.—Yes. I would not like to see that clause taken out of our Charter, because some day the policyholders may take more interest, and when this Commission gets through the policyholders may take more interest and be willing to vote.

Q.—Do you think a policyholder will take an interest in your annual meetings in the same ratio as you gave him a chance to exercise his vote untrammelled—if I remember your testimony you have refused to allow a policyholder to know anything about his copolicyholders by the dread that he

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might exercise his right to vote to the detriment of the powers that be? A.—Oh, I beg pardon your honor, I have never been requested by any policyholder to give any information in connection with voting; I have never refused any policyholder any information.

Q.—I am glad that you mention that, because I was certainly under the impression that I had caused the question to be put straight to you, whether or not you had ever refused a policyholder the right to know who were the other policyholders? A.—I most emphatically say I never did sir. If I gave the other impression I certainly did so unintentionally. I have never at any time refused any policyholder any information in connection with the company or any of its interests.

JUDGE MacTAVISH: I think what was said was to the effect that if a policyholder applied to you for information as to who the other policyholders were and if you had a suspicion that he desired the information for some ulterior purpose, you would be likely to refuse it? A.—Yes, what I had in mind was not a matter of voting, but twisting some of our policyholders out of our company to put them into some of our competitors. If I thought he was really asking for the information for the purpose of voting, I would never think of refusing him any information he might want.

MR. KENT: Any way, I understand you would be in favor of such changes as would permit any and all policyholders, say of \$1,000 and upwards, to vote provided they attended the meeting personally? A.—I would certainly go that far, sir. I think there can be no harm in that to any company.

MR. McLAUGHLIN: I think from reading the evidence, that Mr. Junkin's chief objection was to the evils he thought might arise out of a proxy system, that might make a dictator of the Manager through his agents. I do not think Mr. Junkin is afraid of his policyholders. A.—No, I never have been and I hope I never will be.

MR. KENT: I have no doubt Mr. Junkin admits that his policyholders could, if they chose, swamp him at any time? A.—Certainly.

(Adjourned to Monday, 7th May, at 11 a.m.)

21st day, May 7th, 1906.

TWENTY-FIRST DAY.

MORNING SESSION.

Toronto, May 7th, 1906.

MR. SHEPLEY: We propose this morning to take up the case of the Union Life Insurance Company, and as incidental to that the case of the National Agency Company, which is closely identified in its organization and in its business with the Union Life.

MR. R. J. McLAUGHLIN: I appear for the Union Life in this matter.

H. POLLMAN EVANS, sworn, examined by

MR. SHEPLEY: Q.—You live in Toronto? A.—Yes.

Q.—And what connection have you with the Union Life? A.—President and General Manager.

Q.—Did you bring with you the papers and books which you have been subpoenaed to produce? A.—Yes, they were sent over on Saturday.

Q.—You will be able to refer to them as they are called for? A.—Yes.

Q.—Have you any connection with the National Agency Company? A.—Yes.

Q.—What is your official connection with the Company? A.—Secretary.

Q.—You are a member of the Board of Directors of each Company? A.—Yes, both.

Q.—You are no doubt familiar with the circumstances which led up to the incorporation of the National Agency Company? A.—Somewhat.

Q.—What was your position immediately prior to the incorporation of that company? A.—Manager of the Provident branch of the North American Life Insurance Company.

Q.—The North American Life Insurance Company has its head office in Toronto? A.—Yes.

Q.—And it had a branch of its business known as the Provident branch? A.—Yes.

Q.—And of that branch you were the Manager? A.—Yes.

Q.—Just describe in concise fashion what the business of the Provident branch was, what its nature was? A.—It was insurance for smaller sums than \$1000, and payable on the monthly plan.

Q.—Has that class of insurance a generic name? A.—No, industrial insurance is not strictly Provident insurance, but practically so.

Q.—Industrial insurance is insur-

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ance for small sums of money where the premiums are paid weekly? A.—Yes.

Q.—And provident insurance is similar except that the payments are monthly? A.—Yes.

Q.—The North American Life was writing insurance of that class upon monthly payments? A.—Yes.

Q.—Was it writing any upon weekly payments? A.—No, that is, not within my knowledge.

Q.—Not when you were manager of that branch? A.—No.

Q.—That is what you mean when you speak of being the manager of the Provident branch? A.—Yes.

Q.—You will perhaps be able to tell me approximately, if it becomes material we will get it exactly, what the volume of that class of business in the North American Life was when you were approaching the formation of the National Agency Company? A.—I think that is a matter that probably I would not be justified in speaking of, strictly concerning the North American Life, and being a former employee of theirs—

Q.—I am afraid there is no privilege; you are also connected with the National Agency Company which had certain agreements which are going to be produced, if you can tell me I think I will have to ask you to do it? A.—About \$800,000.

Q.—What was the monthly premium or monthly debit in connection with that? A.—It was about in the neighborhood of \$700.

Q.—Have you in connection with the National Agency Company any book here which will show us these amounts? A.—No, I have not.

Q.—Have you not the books here of the National Agency Company? A.—No, none of them, Mr. Symons could tell you more about that.

Q.—Are they here? A.—Not that I know of, I did not bring them.

Q.—You are the Secretary of that company? A.—Yes.

Q.—You have not brought them? A.—No.

Q.—Why? A.—I did not know that they would be required right away.

MR. JOHNSTON: I do not think his subpoena covers that.

MR. SHEPLEY: But there was another subpoena served on another officer of the company.

MR. McLAUGHLIN: We will try to get everything that is wanted.

MR. SHEPLEY: Perhaps Mr.

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Evans will step down and see if he can find the book.

Mr. Evans steps down and looks through the books.

MR. SHEPLEY: Q.—Do I understand you to say there is no book of the National Agency Company which contains a record showing the volume of business taken over from the North American by the National Agency, or the monthly debit in respect of it? A.—I don't remember of any, not now.

Q.—You think the volume was about \$800,000? A.—Yes.

Q.—And you think the monthly debit was— A.—Seven or eight hundred dollars.

Q.—Let us just have a little explanation of what you mean by monthly debit? A.—Monthly debit is the amount of premiums payable each month.

Q.—That is in respect of the class of business you are speaking about? A.—Yes.

Q.—And that therefore would be expressed in monthly terms the premium income in respect of that branch of the business? A.—Yes.

Q.—That was what the North American Life had in this Provident branch? A.—Yes.

Q.—Then who conceived the idea of forming the National Agency Company? A.—I did, I think.

Q.—And you became one of its promoters? A.—Yes.

Q.—Who were associated with you in promoting the National Agency?

A.—Mr. Symons and Mr. Buchanan and Mr. Plummer.

Q.—Which Mr. Plummer was that? A.—Mr. A. E. Plummer.

Q.—Any more that you remember of? A.—No, I do not remember; no more actively, that is certain.

Q.—It was your idea, you say? A.—Yes.

Q.—And you associated these other gentlemen with you as promoters? A.—Yes.

Q.—Had any of them any connection with the North American Life besides yourself. A.—Not that I am aware of.

Q.—They were not officers nor even shareholders so far as you know? A.—No.

Q.—What was your idea in bringing about the incorporation of the National Agency Company? A.—For the purpose of extending the Provident branch of the business more than it was being extended at that time.

Q.—You were the Manager of the branch? A.—Yes.

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Q.—Had you a staff? A.—Yes.

Q.—A staff of agents? A.—Yes.

Q.—And an office staff? A.—Yes.

Q.—And you were not capable of extending without the incorporation of a company? A.—The limit of the extension was not within my control.

Q.—How do you mean? A.—That was a matter which the North American had to determine upon as to the extent to which they were willing to go in extending the business.

Q.—Had you extended to the limit? A.—We had only operated in the City of Toronto.

Q.—You had not extended to the limit the Board permitted you to extend to? A.—They had not authorized the extension beyond Toronto.

Q.—If you can answer it the other way—perhaps you cannot, and I do not want you to guess, of course—had you taken up all the field that the policy of the North American permitted you to take up? A.—I understand so.

Q.—Both in geography and in volume? A.—Yes.

Q.—You were not in a position to write even in Toronto more monthly business than you were then writing? A.—No, I do not mean that; I mean we were not permitted to go beyond the bounds of the city of Toronto into other cities.

Q.—You had not occupied the Toronto fields to the limit of your instructions, but you had no instructions to go outside of Toronto; is that the right way to put it? A.—Yes, that would do.

Q.—You desired to go outside of Toronto? A.—Yes.

Q.—What experience had you in this class of business? A.—I had been with the Metropolitan for about four years.

Q.—Where? A.—In Tennessee.

Q.—That is a New York company? A.—Yes.

Q.—Which writes industrial insurance? A.—Yes.

Q.—On the weekly or monthly plan? A.—Weekly.

Q.—And you had been their agent in Tennessee for how many years? A.—About four years, three years, I think it was.

Q.—Was that immediately before you came to the North American? A.—No, I was with the Sun before that.

Q.—Of Montreal? A.—Yes.

Q.—Where were you stationed for

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them? A.—In Montreal and in Philadelphia.

Q.—Was the Sun doing this class of business also? A.—No.

Q.—I am rather interested at the present moment in getting your experience in Industrial and Provident insurance? A.—I might make this explanation, the Sun had a system of insurance known as Thrift insurance, but it was not strictly Provident nor Industrial in any sense of the word.

Q.—It had perhaps some family resemblance, but it was not the same kind of insurance? A.—Precisely.

Q.—How long had you been with the North American Life managing this class of business? A.—I think it was three or four years.

Q.—Then you would have had altogether seven or eight years' experience in industrial and provident insurance? A.—Yes.

Q.—There being a space of time intermediary during which you were engaged in some other class of insurance? A.—Yes.

Q.—Then what means did you take of incorporating the National Agency Company? A.—I don't quite understand your meaning.

Q.—How did you go about the promotion that you have spoken of, what did you do? A.—We obtained a charter.

Q.—I believe you took out a charter under the general law of the Province of Ontario? A.—Yes, letters patent.

Q.—Letters patent by the Lieutenant-Governor in Council; have you those with you? A.—I think a copy of them is here.

Q.—I would rather have the original? A.—(Produces original.)

Q.—On the 30th January, 1901, you obtained a charter incorporating Mr. Symons, Mr. Plummer, Mr. Buchanan, Mr. Crispo—you did not tell me of him? A.—He was not actively interested in any way; he was simply put on to complete the Provisional Board.

Q.—And yourself? A.—Yes.

Q.—Incorporated "For the purposes and objects followings: To act as managing Agent for any insurance company that stands registered as such under the Ontario Insurance Act?" A.—Yes.

Q.—And the corporate name to be The National Agency Company, Limited, the share capital of the company to be \$100,000, 1000 shares at \$100 each; head office at Toronto. The

Provisional Directors were to be Mr. Symons, Mr. Plummer and Mr. Evans hereinbefore mentioned. Then there is a provision that, "The Company hereby incorporated shall from time to time as an agency or agencies is or are undertaken forthwith notify our Provincial Secretary of the name or names of such company or companies, and that if the Company make any default in complying with this condition, which is accepted by the company, these our letters patent may thereupon be suspended or cancelled."

Q.—Up to the time that this charter was actually issued, Mr. Evans, had you and your associates in obtaining the charter any object in view beyond the one that you have spoken of, that is taking up and extending the Provident business of the North American Life? A.—No sir.

Q.—Had you come to any terms with the North American Life? A.—Yes.

Q.—You had made your bargain with the North American Life? A.—Yes.

Q.—Was it reduced to writing? A.—Yes it was.

Q.—It was not of course executed or was it? A.—Yes.

Q.—You think it was executed as early as the 30th of January, 1901? A.—Yes.

Q.—Before taking that up let me ask you a question or two with regard to the contents of the charter itself. You had perhaps some correspondence with the Provincial Secretary's office with respect to the condition that we find here, that you were to register any agencies that you took up? A.—I don't remember of any. There may have been some. I have no recollection of it at the time.

Q.—How did that condition come to be put in the charter? A.—I really don't remember. Mr. Symons I think could perhaps give you more information about that.

Q.—And you do not remember that there was any correspondence at all? A.—I have a recollection that there was some, but whether it was about that or some other question I have no recollection.

Q.—Can you obtain for me the correspondence that did pass between anybody acting for the company and the Provincial Secretary's office? A.—Unless Mr. Symons has it, I would not have it.

MR. McLAUGHLIN: If we can find any we will have it here; we will have it looked up.

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MR. SHEPLEY: Will you be good enough to produce the document which you say was drawn, arranged and executed before this 30th day of January, 1901. Is this the first agreement? A.—Yes, I think so.

Q.—Where is the original of this? A.—I think we have it at the office.

Q.—Please get it; not that we desire to retain it, but so that it may be formally made an exhibit. A.—I think I can send for it.

Q.—Can you get it by telephone? A.—Yes.

MR. JOHNSTON: There are three or four documents, one after the other; probably we had better get the whole lot of them at once. I will do that Mr. Shepley.

MR. SHEPLEY: Now this purports to be a copy of an agreement of the 7th of November, 1900, between the North American Life Assurance Company and yourself, Mr. Evans? A.—Yes.

(Original agreement dated 7th November, 1900, between the North American Life Insurance Company and H. P. Evans; copy substituted by consent, marked as exhibit 92. Filed.)

Q.—It reads in this way.—(Reads exhibit No. 92.) That was executed about the time it bears date, the 7th of November? A.—Yes.

Q.—That was while you were in process of your application for incorporation? A.—Yes.

Q.—Now the first observation that it seems to me proper to make about this is that the recital is that you had proposed to organize a company with a paid-up capital of \$25,000. Was that the original idea? A.—Well, the idea was that that would be a minimum amount, so we put it in at that, to be not less than \$25,000.

Q.—It does not say not less than, it says with a paid-up capital of \$25,000. Was the idea that you should have a capital of \$25,000? A.—Of at least that much.

Q.—Did you at the time this agreement was made intend to exceed that? A.—I don't remember that we considered it one way or the other, but Mr. McCabe's stipulation was that we should have that much.

Q.—That you should have that much capital paid up, and the agreement recites that you propose to organize a company with that paid-up capital, \$25,000. Then the next observation that occurs to me to make is that the recital is that the company was to be organized for the purpose of managing and working the Provident branch

of the party of the first part? A.—That is right.

Q.—I suppose that recital is worked out in the agreement itself as it was intended to be worked out? A.—I think so.

Q.—Then the agreement was that as soon as you had your organization complete and your capital paid in cash and available in some bank on or before the 31st of January, 1901, then the company would make an agreement with the company so to be organized, in the following terms; the North American was to transfer that part of its business as a going concern, known as the Provident branch, altogether to the new company? A.—Yes.

Q.—Was this agreement disclosed to the Provincial Secretary's office before your letters patent were granted? A.—I couldn't say, I don't know.

Q.—Do you yourself see a difference between the transaction which the agreement contemplates and the power which is given you in your charter? A.—No, I had not thought of it.

Q.—You had not thought of that at all? A.—No.

Q.—Do you see a difference now that you do think of it, now that your attention is called to it? A.—Well, I suppose there is. I never thought of it before.

Q.—Your agreement was so far as you could make it for the unformed company should take the Provident business over from the North American Life as a going concern? A.—Yes.

Q.—Your charter powers were to act as agent for the Insurance company? A.—Yes, as managing agent.

Q.—You say that was not discussed, that apparent difference—it is not for me to say that it is a difference—that apparent difference between the business which you intended to carry on, and the business which the charter authorizes you to carry on, you say that was never discussed that you recollect? A.—No.

Q.—Do you feel clear about that? A.—Yes.

Q.—Then you were to pay seven times the amount of monthly premiums actually in force on the 31st day of January, the monthly premium being the monthly debit that you spoke about? A.—Yes.

Q.—About \$700, that would make a payment of about \$5,000? A.—Yes.

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Q.—That is what you were to pay, and what were you to pay that for? A.—In consideration for the business.

Q.—That was the consideration for the business. Now was the seven times the monthly debit arrived at? A.—I don't think I quite understand your question.

Q.—If you have a monthly debit or a monthly premium income of \$700, is its value as a going concern, the value of that business as a going business, fixed by multiplying it by seven? A.—It was in that case.

Q.—Is that the usual and fair way of fixing the value of such business? A.—Do you mean as to the number of times?

Q.—Yes. A.—No, I should say that was very much less than the average.

Q.—Have you ever known of a business to be transferred, up to this time, of that kind? A.—I have known of industrial business companies to be transferred.

Q.—Before this? A.—Yes.

Q.—What is your experience with respect to prices paid on the transfer of such business as that? A.—Well, I cannot make any authoritative statement, but only from what I understand as an insurance man, that as much as 100 times the weekly debit, that would be 24 times, and sometimes in excess of that I have heard.

Q.—That would be 24 times the monthly debit? A.—Yes.

Q.—At all events this is what the North American agreed to take, and what you for the proposed company agreed to pay, 7 times the monthly debit? A.—Yes, that is right.

Q.—And that was to be paid in cash. Then the next provision is that your new company was to pay the North American \$2 per thousand net new insurance each month. What was that for? A.—The policies were issued in their name, they issued the policies, and that was the consideration to them for incurring the liability I suppose.

Q.—What was the intention as to the actual issue of the policies, were you furnished with policies to issue, or did they issue them from their office? A.—They were all issued substantially from their office, they were all sent down there, and approved. They were written by our clerks.

Q.—Written by our clerks upon North American forms furnished you for that purpose? A.—Yes.

Q.—And the process of executing them took place in the North American Life Office? A.—Yes.

Q.—Then what is the monthly premium on \$1,000? A.—That depends on the age and the character of the policy.

Q.—Give me a range? A.—Well, probably 40 cents. Oh, for \$1,000?

Q.—Yes? A.—Well, perhaps \$2.

Q.—\$2 would be the monthly premium on \$1,000. Were you giving all the monthly premium away to the North American, because you were to pay \$2 per thousand net new insurance each month? A.—That was an initial payment, one payment. When \$1,000 insurance was issued we were to pay them \$2 for that but no more.

Q.—Then the payment in respect of that ceased? A.—Yes.

Q.—Then this is not perhaps very happily worded, but I can quite see that you may have meant that by it:

“Also to pay the said North American Life Assurance Company each month \$2 per thousand net insurance”? A.—Yes, well, that should have been to pay—we paid each month.

Q.—On whatever the new insurance of the month was? A.—Yes.

Q.—Then the next month you would only pay it in respect of the new insurance in that month? A.—Precisely.

Q.—So that presuming the insurance persisted, it would be one-twelfth of what you would receive during the year? A.—Yes.

Q.—It is a little too early to ask you about the rate of persistence in these policies. We will come to that later on. That was having regard to the nature of the business, will you say this much, that that was a very substantial consideration to pay to the North American? A.—I think it was a reasonable consideration.

Q.—Have you any objection to the language I have used, that it was a very substantial consideration? A.—Well, it would depend altogether on the—

Q.—On the persistence of the balance? A.—Yes.

Q.—You have had more experience in that class of insurance than I have, and you would know more about their persistence. Having regard to that, cannot you go so far as to say, that that is a very substantial consideration? A.—Well, yes, I think perhaps I could. If the company were doing a large business and these lapses were very heavy, it might—

Q.—Then there is a provision here

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that you are to pay a proportion of the net surplus. What do you understand by these words, "net surplus?" A.—Well, after ascertaining what the assets were and the liabilities, the difference would be surplus, according to our interpretation.

Q.—Let me see if I cannot get it a little more closely than that from you. At the end of a year's business you will have received certain moneys by way of premiums? A.—Yes.

Q.—Out of that you have to pay expenses? A.—Yes.

Q.—Assuming that you have got enough to do it. That is the theory of it, that you pay expenses out of that? A.—Yes.

Q.—Then you have to set apart a reserve out of that? A.—Yes.

Q.—Having set apart the expenses and reserve, if you have calculated your premium adequately you have a certain remainder on hand? A.—That is the theory, yes.

Q.—That represents what you have charged the person insured more than the insurance has cost? A.—Yes.

Q.—You agree to that as a definition? A.—Yes.

Q.—Then in order to have a surplus, in the course of the operations that you carry on you must have more money than you have to apply for the purpose of expense, and reserve, you must have received more? A.—Yes.

Q.—In order to have a surplus. That will do for the present as to that. Then your shareholders were to get 10 per cent. before the surplus was to commence to accumulate for the purposes of this agreement? A.—Yes.

Q.—Why was that provision put in? A.—We required that that should be put in before we could divide any surplus with the North American.

Q.—Why? A.—So that it would be profitable for us.

Q.—So that your shareholders would get their dividends, no matter what happened? A.—Yes.

MR. McLAUGHLIN: That would depend on there being some surplus.

MR. SHEPLEY: No doubt it would. If the company was properly managed. A company which pays 10 per cent. dividends is a company in which the public may be reasonably expected to take stock, is it not? A.—Yes, I should think so.

Q.—And the sooner it commences to pay those dividends the more popular the stock is? A.—Yes.

Q.—Had you at the time this agreement was made obtained any subscriptions from the public? A.—I don't think so.

Q.—The only persons who had subscribed were the persons whose names are mentioned in the letters patent? A.—Yes.

Q.—There are five of them? A.—Yes.

Q.—How much had you subscribed? A.—For ten shares.

Q.—Of \$100 each? A.—Yes.

Q.—Mr. Symons? A.—I think one share. I am not sure as to that.

Q.—Mr. Buchanan? A.—One share.

Q.—Mr. Plummer? A.—I think one share.

Q.—And Mr. Crispo? A.—One. I am not sure as to either of these amounts. They are subject to verification.

Q.—They were the subscribers, apart from your own formal subscription, intended to comply with the Act? A.—I think so.

Q.—Then the difference between the thousand dollars which you subscribed, and the \$25,000 at least which was expected to come from the public, would come from subscribers who were not promoters? A.—Yes.

Q.—In other words the subscription would be open to the public to the tune of the difference? A.—Yes.

Q.—And that was the intention from the beginning? A.—Yes.

Q.—Then this provision for the ten per cent. dividend was intended, was it not, to make the stock saleable with the public? A.—Yes.

Q.—Then why did you divide your surplus, after paying that dividend, with the North American Life? A.—They contended that they would be entitled to some of the profits resulting from the business.

Q.—Your intention was to very largely increase the business, was it not? A.—Yes.

Q.—Multiply it by how many? A.—I couldn't say.

Q.—What did you want to do, what had you in view as something that you could do if you got this company in charge? A.—Generally to expand the business of that branch all over Canada.

Q.—And with the result of multiplying it, what was your estimate? A.—I couldn't say that we formed any estimate.

Q.—Then this was a growing percentage instead of a decreasing per-

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centage. What was the reason for that? Why was it not a decreasing percentage? As years went on your new business would gradually replace and swamp the old, which was all you got from the North American Life? A.—Well, I take it it was for the purpose of giving the company some years so that it would not have to divide so much surplus during the early years.

Q.—Giving which company? A.—The North American.

Q.—Giving the North American some years, for what? A.—So that the participation of the North American would be limited to a small amount during the early years.

Q.—Do you recognize the consideration I have just spoken of, that as years went on the business you had acquired would become quite out of proportion to the new business you might be expected to do? A.—But they were liable under all the policies.

Q.—That I suppose was part of the consideration for the deal? A.—If I remember the conversation rightly, it was a consideration for their liability under the largely increasing business.

Q.—You were indemnifying them against all that liability of course? A.—Yes, by the reserve.

Q.—And if they were indemnified against the liability, then the liability was a nominal liability only, if they were adequately indemnified? A.—Still, in the course of time you would find that there was a very large amount of business with no surplus accumulations from it. If they simply had the reserve there would be no surplus showing in respect of that business.

Q.—But still if the indemnity was complete, and you were doing the business, one wonders why you were giving them such an enormous slice as 40 per cent. of the surplus earned by your efforts. Can you give an explanation of that? A.—No, nothing more than I have stated.

Q.—Then there is a provision by which you were to take an office, paying \$300, and you were to pay all the expenses except those incurred in the actuarial department, and the medical directors' work at the head office. In other words they bore such proportion of the actuarial fees and of the head office as represented this particular branch of the business? A.—Yes.

Q.—All else you paid. Then comes the indemnity clause; you were to reimburse them in respect of any pay-

ments they might have to make, and then you were to keep the reserves up, and then what is this provision; the reserves were to be kept up in the hands of the North American? A.—Yes.

Q.—They were to have the actual money? A.—Yes.

Q.—And they were to have the investing of the money? A.—Yes.

Q.—And they could make anything they liked out of the reserves? A.—Yes.

Q.—And any surplus they got belonged to them and not to you? A.—Exactly.

Q.—Then what is this provision about crediting deferred premiums against the reserve liability? A.—That is the usual provision that all life insurance companies have for their premiums at the end of the year that are due and unpaid; a certain amount of them are considered as outstanding and deferred.

Q.—That is the usual provision, if the payment of premiums at the end of a year of insurance happens to be deferred, an allowance is made in respect of that in computing the reserve? A.—Yes, because the reserve is calculated for that, the liability is calculated.

Q.—And the provision virtually was then that if the Canadian Government permitted such a credit to the North American Life they were to permit it to you? A.—Yes.

Q.—You did not stand to make or lose on that? A.—No.

Q.—Why was the provision made that you were not to issue policies for more than \$1,000? A.—Well, I should think, if my recollection serves me right, that was so as not to encroach upon their general branch.

Q.—Then in the event of your new company failing to carry out any of the provisions of this agreement relating to the payment of claims under policies or the reserve liability on the business, the control of this branch you were to take over was to revert to the North American Life. Now speaking generally, the result of this agreement if it were carried out in the terms of it would be that you would be doing the active work of insurance in the name of the North American Life? A.—Yes, the active agency work.

Q.—The active work of insurance, you did everything but issue the policies? A.—Yes.

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Q.—You canvassed the insurance?
A.—Yes.

Q.—You paid the agents? A.—Yes.

Q.—You wrote the policies, all but signing them? A.—Yes.

Q.—And you took a certain portion of what resulted from that business, while the North American Life was to have a certain other portion? A.—Yes.

Q.—And did it occur to you that you were going beyond the powers which the charter conferred upon you, in undertaking practically the business of life insurance? A.—No.

Q.—You did not think you were incorporated as a life insurance company? A.—No.

Q.—Why didn't you incorporate as a life insurance company instead of an agency company? A.—We thought at that time we would be able to make more rapid progress as a branch of an old established company rather than as a new one.

Q.—If you had incorporated a life insurance company for the purpose of doing industrial insurance, and had bought out the business of the North American in toto, you would have had that advantage? A.—Yes, we would have the advantage of the business.

Q.—That is the reason you gave me for not incorporating as an insurance company, that cannot have been the reason, because you could have worked that out equally well if you had incorporated with powers of life insurance? A.—Well, but we had the prestige of the North American Life Company through the country.

Q.—Was there any other reason? A.—No, none that I recall.

Q.—Any discussion between you as to the way in which you could avoid making Government returns? A.—No, none whatsoever.

Q.—And that method of doing the business was for the two reasons, and for those two reasons only, so far as you are able to tell us, that in the first place you got an established business, and in the second place you got the prestige of the company whose name appeared upon the policies? A.—Yes.

Q.—How long did matters remain in that position, you with this agreement, and the charter of incorporation; have you here the stock book of the National Agency Company? A.—No, I have not.

Q.—On the 31st of January when your charter was issued, and when this agreement fell to be carried out,

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what stockholding had you? A.—I couldn't say.

Q.—Where is the book? A.—Mr. Symons has that.

MR. McLAUGHLIN: I submit that it is not necessary to go into the business of this agency company any further than it touches the life insurance company. It is a separate company chartered under the laws of the Province of Ontario. It made an agency contract, and in every way that it touches the business of life insurance we will furnish everything; but to go into the names and holdings of the stockholders of the company, and matters of that kind, does not appear to me to be necessary at all for this inquiry. It is precisely the same as going into the private business of any other life insurance agent.

MR. SHEPLEY: The jurisdiction of the Commission is of course as stated in the Order in Council. Your jurisdiction is, in the first place, to inquire into: (Reads section A and subsection 2 (b) of the Order in Council.) This is "an allied question." This is a company incorporated for the express purpose of acting as insurance agent, as managing agent for insurance companies. It has made itself part of the insurance system and comes within your jurisdiction. Then there is this further extraordinary—I should not say extraordinary, but this unusual state of affairs; we have here a company incorporated for the purpose of acting as insurance agent, which upon the statement of the witness and upon the documents has undertaken to do the business of life insurance. It is not licensed by the Dominion, but that cannot affect the question, because if it is chartered by the Province it is within the jurisdiction of this Commission so long as it has a substantial connection with the question of insurance.

JUDGE MACTAVISH: I recall that a copy of the charter of this company was deposited with the Superintendent of Insurance in Ottawa?

MR. SHEPLEY: A copy of it was.

JUDGE MACTAVISH: And evidence of it given before us.

MR. SHEPLEY: Yes, that is quite true; and the list of shareholders at a particular time. That was all made the subject of inquiry in the Department of Insurance before the license to the Union Life was issued, and as a condition of the issuance of the license.

MR. McLAUGHLIN: You have all

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that, and we are not seeking to withdraw it; but we have a reasonable right to have the law administered in this Commission, not merely every suggestion my learned friend desires to make accepted and agreed to. The Order in Council that grants this Commission, and the Commission itself is limited by the statute under which it is granted. The statute authorizes the Governor-General in Council to issue a Commission to investigate any matter pertaining to the good government of Canada. That of course is not wide enough to cover the investigation into the private business of every individual in the country; because that is not a matter of the good government of Canada. "Good government" has a limited meaning. Under that Commission you undoubtedly have a perfect right to examine into the operation of the insurance laws of the Dominion of Canada, because that is part of the Government of Canada, but where it comes to an examination into the constitution and charter of a company granted by the Province of Ontario, not by the Dominion, that is a different matter. Now it is said by my learned friend that this company has gone into the business of insurance. It has gone into the business of insurance the same as any other individual who goes into the business of insurance as an insurance agent goes in. The policies that were issued, and that we have heard about up to the present time, were all issued by the North American Life Insurance Company. The only contracts of insurance that were issued were issued by the North American Life Insurance Company, and the contract was between the North American Life Insurance Company and its policyholders; the reserves were held by the North American; the policies were made by the North American. I admit that this Company as agent for the North American had about as broad an agency as possibly could be granted, but it was still an agency. This company is not authorized by its charter, nor by its practice, to enter into contracts of life insurance with individuals. There are certain provisions for division of surplus and indemnity to the North American Life, but every contract of insurance as such was issued by the North American. This is just a question under that statute which authorizes you to investigate into the operation of the laws of the Dominion of Canada; the statute is very short and concise; whether you have an unlimited

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ed roving Commission to investigate into the affairs of every corporation in this country, no matter under what jurisdiction, it is chartered, I submit this is altogether beyond the jurisdiction.

MR. SHEPLEY: We have a right to go into the business of every insurance agent in Canada.

MR. McLAUGHLIN: Into his business, but not his citizenship.

MR. LANGMUIR: Am I correct in thinking that three distinct organizations are financially interested in the insurance business of the Union Life?

MR. McLAUGHLIN: The investigation so far has been into the relations of the National Agency Company and the North American Life. These relations were carried on for a couple of years before the Union Life was organized. The investigation so far is before the Union Life was organized at all. We have not got down to the organization of the Union Life. The arrangement not proving entirely satisfactory to either party, it was decided to form a new life insurance company and take out a charter, which was done under the name of the Union Life, and this business was again transferred to them; but at this time the Union Life was not in existence.

MR. SHEPLEY: There are three distinct bodies, as his honor has asked. That is at different times, there was A and B one time, and A and C at another time, but in one continuous business.

JUDGE MacTAVISH: The Union Life succeeded to the rights of the North American Life?

MR. McLAUGHLIN: When the Union Life came in, the North American went out, except in so far as they remained liable under the policies they had already issued.

JUDGE MacTAVISH: Do I understand that the transactions of the National Company are limited to the business of life insurance in some form or other?

MR. McLAUGHLIN: Acting as agent.

MR. SHEPLEY: We think not; we think they have a great deal of other business, but that will develop itself on the documents as they are brought out.

MR. McLAUGHLIN: The charter has been put in and read. It says, "To act as Managing agent for any life insurance company."

MR. SHEPLEY: We have a right

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to go into the business of every man or every company, every syndicate that is doing the business of life insurance agents.

MR. McLAUGHLIN: You have a right to go into the life insurance business, but not the outside business of any man who happens to be a life insurance agent.

JUDGE MacTAVISH: Do you say this company is limited to doing a life insurance business?

MR. McLAUGHLIN: What I say is that its shareholders, who they are, and matters of that kind, are not life insurance matters. It is constituted by the Province of Ontario, and are we to say here that it is not lawfully constituted by the Province of Ontario? If it is lawfully constituted by the Province of Ontario, it is within the jurisdiction of the Province and not the jurisdiction of this Commission.

JUDGE MacTAVISH: The list of shareholders is a public document in some form.

MR. McLAUGHLIN: We have no objection to having the list here.

MR. SHEPLEY: The thing I am asking for is not the general list as it was when the Union Life was formed, but the amount of stock that had been subscribed and paid in and who had subscribed and paid it in on the 31st of January, 1901, when this agreement came to be performed. That is for reasons which are obvious, very material to the inquiry if it is to be an effective inquiry.

MR. McLAUGHLIN: The company was an insurance agent, created under the Companies' Act, and if it fulfilled the provisions of the Companies' Act and the Lieutenant-Governor of Ontario granted a charter, that created a legal personality with all the powers to contract that the charter gives it, and there is no necessity for going any further. I see that the powers are to act as the managing agent of any insurance company. It is not limited to life insurance. They are general insurance agents by their charter. I am desirous of furnishing every possible information but I do not think the whole question of the getting of stock, how it was got, and what was paid for it, and whose hands it has been in from time to time is material for this Commission. We will give you a list of the shareholders. Of course we have no hesitation in doing that.

JUDGE MacTAVISH: The jurisdic-

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tion of the Commission is determined by the terms of the Order in Council.

MR. McLAUGHLIN: And further by the terms of the statute under which the Order is issued.

JUDGE MacTAVISH: I was coming to that. I think we can scarcely go into that question. The Commission is issued to us by His Excellency in Council. We have accepted the duties imposed upon us by that Commission. The question arises as to whether any particular matter comes within the terms of the Order in Council providing for the inquiry. We must determine that; but the question whether the statute authorizes the issue of the Commission in the wide terms in which it is issued, is not for us to determine.

MR. McLAUGHLIN: I would like to call your attention to one thing, Mr. Chairman. The Order in Council and the Commission both refer to the statute, and consequently in their interpretation are governed by the statute. They must be read together; the one governs the other, and the Order in Council is only an expression of what is contained in the statute.

JUDGE MacTAVISH: It seems to me that the terms of the Order in Council are wide enough to cover the inquiry so far as we have gone or so far as Mr. Shepley proposes to go.

MR. McLAUGHLIN: Will there be anything in the Dominion that will be outside the limitations of that little statute?

MR. SHEPLEY: Not so far as it relates to Life Insurance.

MR. McLAUGHLIN: Where it refers to the private business either of a company or an individual, we object.

JUDGE MacTAVISH: The question of life insurance is a very wide one.

MR. McLAUGHLIN: It is just as wide as life insurance. It can be seen through and around. It is not necessary to wander all over the Dominion.

JUDGE MacTAVISH: We have not yet gone outside the scope of the inquiry.

MR. SHEPLEY: On the 31st of January what was your stockholding? A.—I cannot say.

MR. McLAUGHLIN: We will put in a list. The 31st of January of what year?

MR. SHEPLEY: I want all their

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holding that existed on the 31st of January, 1901?

MR. McLAUGHLIN: We will put in that list; we cannot give it from memory now.

MR. SHEPLEY: I will ask the witness a question about that which will show my learned friends what I want, and I take it for granted that they mean what they say, that they want to help. You had only \$1400 subscribed for at the time your charter was issued? A.—I am not sure as to that. I said I thought so.

Q.—You said you thought that was so, that there was no stock subscribed except what was named in the Charter? A.—Yes.

MR. McLAUGHLIN: I think it will save time; that will be shown by the petition and we will try to get you a copy of that.

MR. SHEPLEY: If my learned friend will be a little patient and listen until I get through he will know what I am getting at. This agreement was not to become operative until \$25,000 was paid in cash and shown to be available in some bank? A.—Yes.

Q.—Now then I want to get the shareholding at the time this agreement became capable of being performed? A.—I cannot give you the exact amounts.

Q.—That can be got from your stock book if you would get it here? A.—We can send for it.

Q.—There has been a subpoena to produce it.

MR. McLAUGHLIN: This is the agreement we sent for for you I do not suppose you want to put in the original.

MR. SHEPLEY: I do not know that I want to put it in. I want it checked. But now I want the stock book. Now that the ruling has been that you are to produce it, I ask that that be obeyed.

MR. McLAUGHLIN: The ruling and the agreement was that we would give you a list of the stockholders of any particular time.

MR. SHEPLEY: I am asking for your stock book and I have a subpoena calling for the stock book.

MR. McLAUGHLIN: We said we would give you a list of the stockholders at any particular time, but to put the stock book in is a different thing.

MR. SHEPLEY: My learned friend is trifling with the ruling of the Board.

MR. McLAUGHLIN: That is what I said and what the Court accepted.

JUDGE MacTAVISH: I think the stock book should be produced, not for the purpose of being filed, if you do not desire to file it, but to give the Commission the information Mr. Shepley requires.

MR. McLAUGHLIN: I may say further in this matter that like the Manufacturers' Life we are desirous of furnishing everything, but my retainer is only since Saturday night and I have not had any opportunity to go through the books of this company at all.

MR. SHEPLEY: A subpoena has been issued and served for the purpose of producing all these documents. My learned friend has a right to make his objection but the proper course would have been to have obeyed the subpoena to the extent of having the witness here with the documents covered by the subpoena and then to have taken the objection, so that if the objection was overruled the inquiry could proceed, and not to leave the documents away.

MR. McLAUGHLIN: This is the subpoena. I would like to know where there is anything said about the National Agency in that.

MR. SHEPLEY: If you will produce the subpoena served on one man and not on the other.

MR. McLAUGHLIN: I am producing the subpoena served on the witness in the box. I do not think we are in contempt.

JUDGE MacTAVISH: No.

MR. SHEPLEY: My learned friend produces one subpoena instead of the other.

MR. McLAUGHLIN: I produce the subpoena served on the witness that is in the box, and the only subpoena I have seen.

MR. SHEPLEY: I accept my learned friend's statement then that he has not seen this one; this is the subpoena served upon Mr. Symons, who happens to be present.

My learned friend shows your lordship the wrong subpoena and says he is not in contempt. I am not saying any one is in contempt, but I want the documents produced.

MR. McLAUGHLIN: Let us be a little reasonable and courteous in this matter. My learned friend, Mr. Shepley, has said that I produce the wrong subpoena. I produce the subpoena served upon this witness, and that expression has no right to be made here.

MR. SHEPLEY: I can put that right by asking this witness to step

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down and asking Mr. Symons to step into the box, if that will stop this objection.

MR. McLAUGHLIN: We are willing to furnish all the information that refers to either of those two Life Insurance Companies, but a subpoena issued to furnish everything in connection with the National Agency since it was incorporated down to the present time, must certainly be wider than the Insurance Investigation.

JUDGE MAC TAVISH: The question is as to the stock book of this company. Will that be produced? I think it should be.

MR. SYMONS: May I be allowed to make an observation, Mr. Chairman? I am the party on whom the subpoena was served. As regards the stock books, I have no objection whatever to produce the lists that were made of shareholders, and during the lunch hour I will procure them. But it will be simply out of deference to the ruling of your honor and not with the idea that we are compelled to produce them or that they should be placed on file, because we intend to take the objection that the business of the shareholders is not a subject of inquiry by this Commission. For the purpose of satisfying my learned friend that the proper amount of stock was subscribed for at the time the letters patent were issued, I will produce the list after lunch if you will allow me.

MR. SHEPLEY: Are we to have the stock book or not? I do not know what my learned friend means by a list. We have a list but it is not the list I want. You have said the stock book will be produced. It seems to me that it is convenient that we should know now whether this subpoena is to be obeyed in its entirety or not. Only one matter has been spoken of, but if we have to wait an hour for every document that is called for, we will be very unduly hampered in getting on with expedition.

JUDGE MAC TAVISH: Should not the subpoena be complied with as a whole, Mr. Symons, saving any exceptions that you may see fit to take to the production of documents when called for?

MR. SYMONS: I am quite willing to do that, your honor; this subpoena was served upon me some time about noon on Saturday. It has been a matter of physical impossibility to comply with the subpoena.

MR. SHEPLEY: It is fair to say that I would not have troubled my learned friend with a subpoena but for

the fact that the position was taken that we were not entitled to see anything. I could have myself had an investigation made and selected the particular books that were wanted and have saved a great deal of trouble, but we were not permitted to see anything. For that reason a subpoena was served, but the application for the inspection of books so that we could get at what we wanted, was made before any subpoena was issued.

MR. SYMONS: It is one thing to do that at a moment's notice and another thing to comply with it. We will endeavor to meet the demands of that subpoena, reserving such objections as we are entitled to.

MR. SHEPLEY: Then I shall have to return to this subject, but I pass on for the moment so as to save time, with your honor's permission.

Q.—Did you satisfy the North American on the 31st of January that you had \$25,000 in the bank? A.—No, we had a verbal extension of the agreement.

Q.—There was nothing in writing about that? A.—No.

Q.—How long was it extended? A.—I think until about the following August.

Q.—Was it one extension or several extensions? A.—I couldn't answer that. Mr. McCabe made the arrangement.

Q.—With whom? A.—With me.

Q.—Then cannot you remember? A.—No.

Q.—Mr. McCabe is not available and you are. A.—I could not tell you of more than one, but I know the extension was made.

Q.—During the interval were you engaged in getting public subscriptions to your stock? A.—Yes.

Q.—Your charter authorized a capital of \$150,000? A.—Yes.

Q.—And your agreement had called for a deposit of \$25,000? A.—Yes.

Q.—When you came to the next agreement, which bears date the 7th of August, 1901, can you tell me approximately what stock you had raised then? A.—Well, I know we had enough to comply with the requirements of the North American. I don't remember the exact amount.

Q.—You had at least \$25,000? A.—Yes.

Q.—That also we can see when the stock book arrives. Then on the 7th of August you entered into a formal agreement, your company and the North American Life Company, in

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pursuance of the agreement which you had made as a preliminary to the incorporation of your company? A.—Yes.

Q.—Will you let me have that, please?

MR. SYMONS: I would like to put in a copy. This is the original.

MR. SHEPLEY: I shall be much obliged to you if you will. (Original agreement dated August 7th, 1901, between the North American Life and the National Agency Company produced and read. Copy substituted by consent, marked as Exhibit 93, filed.) Now this agreement was between the two companies; the insurance company is referred to throughout as "the Insurance Company" and the National Agency Company as "The Agency Company." The recitals agree with the recitals in the earlier agreement, substantially? A.—Yes, I think so.

Q.—"The Agency Company agrees to pay to the Insurance Company," "The sum of \$4,564.07 being equal to 7 times the amount of monthly premiums on the business actually in force as of the first day of February last past." That was seven times the monthly debt of the 31st of January referred to in the prior agreement? A.—Yes.

Q.—"And further agrees to pay to the said Insurance Company each month the sum of \$2.00 for each \$1,000 net new insurance." Then there is the exception that there is to be an annual dividend of 10 per cent. paid according to the laws of Ontario on the paid-up capital stock of the Agency Company. That is the first thing that stands in the way. Then the provision with respect to the percentage on the remaining surplus is just as it was in the former agreement? A.—I believe so.

Q.—20 per cent. for 5 years, 25 per cent., 30 per cent., 35 per cent., and then 40 per cent. is a stationary percentage of surplus. Then the provision as to the lease is the same with this added, "Said lease to be for a term of 3 years and to contain the usual provisions and covenants." The term to be extended with such increase of accommodation and of rent or of either as may be agreed upon. Then there is the same provision with respect to your paying of expenses. The same provision as to your indemnifying the Insurance Company against all death and other claims. The same provision as to reserve. Was there any change in that? A.—Not that I recollect.

Q.—Then there is an addition to the provision about terminating the agreement. How did that come to be inserted? A.—I don't know. I don't remember now. I suppose it was a requirement that the North American insisted upon.

Q.—Then there is a provision here which is also new, that is "nothing herein contained shall be considered to create a partnership or quasi partnership in any matter or form between the parties," and the covenants and liabilities are deemed to express an admitted debt and not as evidencing any such relation. How did that come to be put in? A.—That was put in at the instance of the North American.

Q.—Why, what was the argument about it? A.—If I remember rightly, they wanted to show that they were quite disassociated from the National Agency and that there was no partnership or anything between the two companies.

Q.—You think that was at the instance of the North American Life? A.—Yes, I think so.

Q.—Not at your instance? A.—No I think not.

Q.—Then there are two reserves mentioned? A.—If I remember rightly one was for the purpose, if the company had a certain amount of business in force at the beginning of the year and it increased largely during the year, that we should maintain the same reserve during the year to provide for the total sum that would be payable at the end of the year.

Q.—In the first place you are to keep \$5,000 in reserve in cash to provide against accruing death claims and other contingencies. That has nothing to do with the reserve required by the statute? A.—No, I suppose that would be for the same purpose.

Q.—Then a further sum is specified by the Insurance Company, but not exceeding \$5,000, to meet the next accruing payment on account of reserve fund? A.—I suppose the first one is for the same purpose, so that if any large amount of death claims should come in the company would always have sufficient reserve to provide against them.

Q.—Then neither of those has anything to do with the maintenance of the Government reserve? A.—I should not think so.

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Q.—I suppose you did not commence to work under this agreement until the 7th of August? A.—I think that was the date.

Q.—Immediately upon the making of this agreement. Then you worked under that agreement down to what date? A.—The 16th of July, 1902.

Q.—Would your company engage in any other insurance transactions than the taking over and widening and extending of the Provident branch of the North American Life during that period? A.—Yes, we acted for, I think it was the Canadian Accident Company.

Q.—You acted as agent for the Canadian Accident Company? A.—Yes.

Q.—That was by virtue of some agreement I suppose? A.—Yes.

Q.—Have you that here? A.—No, I have not.

Q.—That we shall want to see too. How long were you agent for the Accident Company? A.—I don't remember; I should think about nearly a year.

MR. SYMONS: We will produce that. I had forgotten all about it.

WITNESS: I had forgotten it too.

MR. SHEPLEY: Then did you do any other business in the nature of agency business during the period to July, 1902? A.—No, I don't recollect of any.

Q.—Did you have some dealings with the Century or was that afterwards? A.—That was some time afterwards.

Q.—Then when you had been working nearly a year with the provident business of the North American Life, what happened? A.—We decided to form the Union Life Company, a separate company.

Q.—That is you, the National Agency Company, decided to form? A.—Yes.

Q.—What was the occasion of that? A.—We thought we would be able to do a much larger business and a more profitable business as an independent company. We had already established ourselves and acquired a substantial amount of business and we thought we could derive more advantage by owning a company of our own rather than to share the profits with the North American.

Q.—You had the North American agreement by which you were bound of course? A.—Yes.

Q.—Did you enter upon negotiations with the North American Life

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before your formation of the Union Life? A.—Yes.

Q.—Were those negotiations in writing or verbal? A.—I think they were all verbal.

Q.—You will look, if you please, to see if you can find any correspondence relating to that? A.—We were all in the same building and I think it was nearly all by word of mouth.

Q.—Was the North American Life willing to give up its interest? A.—They agreed to it.

Q.—How was that? A.—I think probably largely on account of expected friction between our agents and theirs. In the Provident branch we could issue as far as \$1,000 and take the premiums monthly. Their general agent would perhaps insure a man for \$500 or \$1,000 upon quarterly or half-yearly premiums, and friction developed between their agents and ours.

Q.—You say their agents were insuring below \$1,000? A.—Yes, they had a perfect right to do that. They would take a small premium payable quarterly and that came very close to the same class of people as we were dealing with.

Q.—Touching the same class as your monthly business? A.—Yes.

Q.—Then you wanted a company and you had virtually been carrying on the business of Life Insurance for nearly a year. Why did you not apply for insurance powers for the National Company and turn that into an insurance company, why did you have an independent insurance company? A.—I don't know; I don't think we ever thought of the other. I don't think it occurred to me. We wanted a Dominion Charter and we went direct to Ottawa to get one.

Q.—Who were the promoters of the insurance company? A.—The National Agency Company.

Q.—You went to Ottawa to get a Charter, that is a statute of the Dominion? A.—Yes.

Q.—And you remember the requirements of the statute with respect to the qualification of directors? A.—Yes, 25 shares each.

Q.—And how many? A.—Seven directors.

Q.—That was what you were required to do under the Act? A.—Yes.

Q.—How did you accommodate that? A.—There were 7 Directors and each took 25 shares and the Na-

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tional Agency Company subscribed for the rest.

Q.—Who were the Directors, do you remember? A.—Mr. Percy, Mr. Symons, Mr. Valleyrand, Col. Jones, Dr. Hughes and myself. I think those are the seven.

Q.—And what connection had these gentlemen with the National? A.—They were shareholders.

Q.—Any of them Directors? A.—Yes, I think at that time they were all Directors. I am not positive as to that.

Q.—Each of those subscribed for 25 shares in order to comply with the statute? A.—Yes.

Q.—Were they to pay those subscriptions out of their own pocket or was the National to pay? A.—The National paid them indirectly.

Q.—And they were only pro forma shareholders either then or at any time? A.—Yes, at that time. The personnel of the Board is not all the same now.

Q.—Did any of these gentlemen ever pay for their stock? A.—Not directly.

Q.—Or was that stock ever paid for by anybody but by the National Agency Company? A.—The National Agency Company paid for it.

Q.—Was the National Agency Company ever reimbursed by anybody? A.—No.

Q.—I have observed that at the time of the incorporation of this company, the whole of the stock was not subscribed for, in the Union Life Company. Can you say how that was? A.—I think it was all subscribed for.

Q.—It was eventually, but in the first instance there was I think \$63,750, or something of that sort? A.—That was the requirement of the Act then. I don't remember about that, but that was the amount that was required to be.

Q.—\$6,075 is the amount, do you remember about that? A.—Well, that was sufficient to bring the amount up to \$62,500, the requirement of the Act then.

Q.—Subsequently did the National Company subscribe for the whole of the rest? A.—I believe so, yes.

Q.—And paid for it? A.—Yes.

Q.—So that there was how much paid altogether upon the capital stock of the Union Life? A.—\$100,000.

Q.—On a total authorized capital of how much? A.—One million.

Q.—The Union Life Company was

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to have a capital of a million, and the National Company paid up 10 per cent. upon it? A.—Yes.

Q.—Then did you hold a meeting of the shareholders of the National Company before you obtained this Act of incorporation? A.—I believe so.

Q.—Those minutes will be produced? A.—Yes.

Q.—There was considerable correspondence at the time of your application to the Department for a license between Mr. Symons and the Superintendent? A.—I think so.

Q.—You were aware of it I suppose at the time? A.—Yes.

Q.—The correspondence seems to have commenced, so far as the Departmental records show, by a letter from Mr. Symons of the 12th of June in which he asked what the fee for the license would be under section 4 of the Act; and then on the 20th of June he sent forward a letter to Mr. Fitzgerald with certain information. That correspondence I want to go through with you. He says, "I beg to apply for a license authorizing this company to go into business as provided under section 4 of the Insurance Act. In compliance with section 12 I enclose certified copy of the Act of incorporation." That is here. (Referring to exhibit 49.) This mentions Dr. Millichamp? A.—Yes, I forgot him before.

Q.—Then, "The persons named in section 1, together with such persons, not exceeding six that they associate with them." They did not associate anybody with them did they? A.—No.

Q.—"Shall be the provisional Directors." "As soon as \$250,000 of the capital stock has been subscribed and 10 per cent. of that amount paid in to some chartered bank in Canada, the provisional Directors shall call a general meeting of the shareholders." That does not seem to quite agree with your recollection as to the requirements of the statute? A.—Further down you will find it in the next section.

Q.—"Provided the company shall not commence the business of insurance until \$62,500 has been paid into the fund of the company." There is a provision for increasing the capital. That never has been done? A.—No.

Q.—There is an original power of attorney to Mr. H. P. Evans as chief agent of the company in Canada. That

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is required by the Insurance Act? A.—I believe so.

Q.—“C. List of shareholders duly verified.” That is this list and shows quite clearly what you have been saying. “Mr. Evans, 25 shares \$250.” Then Messrs. Hughes, Jones, Percy, Symons, Valleyrand and Dr. Millichamp, each 25 shares, \$250. “Harry Symons, H. P. Evans, and Charles Percy in trust 6,075 shares, \$60,750,” or a total of 6,250 shares or \$62,500. Now what was that trust? A.—We thought that would be a most acceptable term by the Department, but I believe afterwards it was changed. I think they objected to it.

Q.—These three gentlemen were trustees for the National Agency Company? A.—Yes.

Q.—There was a document upon that was there not? A.—I don't remember.

Q.—We will come to that later on. Then “I enclose also schedules of particulars relating to the securities which the company proposes to deposit with the Minister under sections 7 and 8 of the Act.” What was that deposit for? A.—To obtain the license.

Q.—City of Winnipeg debentures, \$25,000. Sault Ste. Marie ten and ten \$20,000. Port Arthur six. Nelson, B.C. three. A total of \$54,000. What was that for? A.—To obtain the license.

Q.—And where did those debentures come from? A.—I think they were mostly purchased from Mr. Brent, if I remember rightly.

Q.—With whose money? A.—The Union Life's money; money that had been deposited.

Q.—That is out of the \$62,500? A.—Yes.

Q.—Your return to us shows that you bought the Winnipeg and Port Arthur debentures from Mr. Brent, making \$31,000, but that the rest were purchased from the National Agency? A.—That is right of course if it is there. I had forgotten the transaction.

Q.—Will we get in the books of the National Agency and the Union Life the records of these transactions? A.—They will be in the books.

Q.—We will see them there. The money that was paid out for them, was paid out of the \$62,500 as you have said? A.—Yes.

Q.—Then I pass over certain vouchers relating to the debentures. Subsequently Mr. Symons sent on a copy of the National charter and also of letters patent, issued by the Province of

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Ontario increasing the capital stock of the National from the original \$100,000 to \$500,000? A.—Yes.

Q.—I pass that over in its turn. That increase in the capital stock of the National Agency Company was authorized on the 28th of August, 1901? A.—I don't remember the date. That is correct if it is there. (Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 P.M., May 7th, 1906.

Examination of Mr. Evans continued.

MR. SHEPLEY: I suppose the minute book of the National Agency Company is not here? A.—No, Mr. Symons is not here, he is coming over in a few minutes.

Q.—I see that at some time, the date of which is not stated in the minute itself, a by-law appears to have passed at a special general meeting of the shareholders with reference to the purchasing of stock in insurance companies? A.—Yes.

Q.—You gave this certificate? A.—Yes.

Q.—You certified That the following is a true copy of by-law number 36, which was duly passed as required by law at a special general meeting of the shareholders, and is still in full force, but you do not say when it was passed? A.—I do not remember.

Q.—Would it be passed on the same date as the resolutions of the directors immediately following it? A.—I should think so.

Q.—We will get that from the minutes when they come? A.—Yes.

Q.—You were present at the meeting of the shareholders at which that by-law was passed? A.—Yes.

Q.—It had previously I suppose been passed by the directors provisionally? A.—Yes.

Q.—What shareholders were present at the meeting? A.—I do not remember.

Q.—Do you remember what discussion there was about it? A.—No.

Q.—So far as you are concerned we will have to take what is in the minutes? A.—I do not remember the details, I do not think there were very many present there were not as a rule.

Q.—And there was very little discussion about it? A.—Very little I should think.

Q.—This is what the shareholders are said to have passed: “The Directors of this company are hereby auth-

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orized to use its funds on its sole behalf in the purchase of or by way of loan upon the stock of any life insurance company incorporated by the Parliament of Canada or under the laws of any Province of Canada, on such terms as to the said directors may seem proper, and any stock so held may be represented at the meetings of any such insurance company by such director or directors of this company as may be appointed by proxy therefor by the Executive Committee"—you remember generally the terms of the by-law? A.—Yes.

Q.—Do you remember the fact of its passing, or is that just a matter — A.—No, I do not remember that.

Q.—What was the occasion for that by-law? A.—I do not remember.

Q.—Was that before you? A.—My impression would be some time before the Union Life incorporation.

Q.—And do you think it would be with reference at all to that? A.—I would think so but I could not say definitely.

Q.—You observe of course that your Board is authorized by that by-law to use funds in purchasing stock or in lending upon stock? A.—Yes.

Q.—There is no suggestion of any particular company there, it is the stock of any life insurance company incorporated by the Parliament of Canada or under the laws of any Province of Canada? A.—Yes.

Q.—It is perfectly general in its terms? A.—Yes.

Q.—And there is no specific mention of the Union Life in it? A.—No.

Q.—Nor is there any suggestion in it directly of power to subscribe for the whole of the capital stock of any company? A.—No, apparently not.

Q.—Following upon that we have upon the same page in your certified copy a resolution of the directors which is said to have been passed on the 4th June: "That under the authority conferred by by-law number 36 it is ordered that an application or applications be made on behalf of this company for the purchase of 9,825 shares in the capital stock of the Union Life Insurance Company," etc. (Reads resolution; see Ex. 49)—you remember that? A.—Yes, generally.

Q.—There there is the direct reference to that company, and the direct reference to the getting in of the 9,825 shares? A.—Yes.

Q.—Nothing said about the qualifying shares of the directors at all in it? A.—No.

Q.—Do you know of any other auth-

ority for the subscription of stock in this company which was made on behalf of the National Agency Company than what I have read? A.—No, I do not recollect.

Q.—You do not know of any other authority? A.—No.

Q.—Mr. Symons' letter to the Department of the 24th June states that the by-law was passed in accordance with section 82 of the Ontario Companies' Act, chapter 191 of the Revision of 1897—I suppose you know what that section provides, or do you? A.—I do not recollect at the moment.

Q.—Perhaps it would be just as well to incorporate it in the record here. Section 82 reads:

"82. A company shall not under any circumstances use any of its funds in the purchase of stock in any other corporation unless and until the directors have been expressly authorized by a by-law passed by them for the purpose and sanctioned by a vote of not less than two-thirds in value of the shareholders present in person or by proxy at a general meeting of the company duly called for considering the subject of the by-law."

Then in a postscript to Mr. Symons' letter he explains the discrepancy between 6,075 shares and the 9,825 shares: "You will see by the resolution that the trustees were authorized to purchase 9,825 shares in the Union Life, but the purchase was limited to 6,075, leaving still unissued and unallotted 3,750 in the Union Life"—that letter is written on the 24th June, and on the 4th June the Board had sanctioned the purchase of the whole 9,825 shares—you will remember that? A.—Yes.

Q.—Was there after the passing of that resolution by the directors ever any idea of leaving any portion of that unallotted? A.—I could not answer that, I do not remember of any, I could not say definitely, I do not remember that there was such.

Q.—The intention was to take it all from the beginning? A.—I think so, yes.

Q.—The trust deed under which the stock was subscribed for and held is dated 4th June, being the same date as the resolution of the directors according to the minute we have. It is between Mr. Symons, yourself and Mr. Percy, hereinafter called the trustees, and the National Agency Company hereinafter called the Agency Company. It recites, (Reads the

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whole of the original trust deed produced).

—By consent a copy was substituted for the original trust deed, dated 4th June, 1902, and filed as Exhibit 94. (Referring to Exhibit 49) Then Mr. Fitzgerald asked Mr. Symons by letter of the 30th June for the financial statement of the Agency Company, and for a copy of the trust deed which I have just read, Mr. Fitzgerald writes, "I understand you to say that the shares subscribed for by the seven directors were so subscribed in trust for the Agency, and the ten per cent. thereon paid by the National Agency." Then Mr. Symons replies to that on the 2nd July, "It was not in my mind I had promised to send you financial statement of Agency Company," etc. (Reads) "The shares subscribed for by the seven directors were not subscribed in trust but individually for their own use only," etc. (Reads down to the word "thereof")—is that accurate? A.—Substantially so, I think.

Q.—You told me this morning that the National Agency Company paid the money, and has never been reimbursed or indemnified? A.—Yes, at that time I think there was an understanding that the directors would pay for it later, but it has not been done.

Q.—Then Mr. Fitzgerald is forwarded on the 3rd July by Mr. Symons the financial statement of the National Agency, made up to the first July, "This statement is substantially correct." (Reads balance of letter). Then I want you to look at this statement which is signed by yourself and Mr. Symons, Mr. Symons signing as President and you signing as Vice-President and General Manager: "By stock and premium thereon subject to call"—that is the first asset? A.—Yes.

Q.—That was the unpaid portion of the \$500,000 authorized issue of stock plus a premium of 25 per cent? A.—That would be that portion of the authorized which had been subscribed but unpaid.

Q.—At that time had it all been subscribed? A.—I think up to that time, yes, not the whole \$500,000; I think it says at the bottom there.

Q.—\$300,900 had been subscribed? A.—Yes.

Q.—And this was the unsubscribed plus a premium of 25 per cent? A.—That was the subscribed plus a premium of 25 per cent. but not paid.

Q.—Going back the total subscribed was \$300,900, the total paid was \$98,-

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715, and that had been paid with the premium of 25 per cent., and the \$300,900 is the same sum as that, capital subscribed, and then the \$249,525 is what remained paid on that plus 25 per cent., stocks, bonds and other securities owned by the company including 6,025 of Union Life, \$60,250; \$92,445—that left \$32,000 about of other securities. I suppose we can find out what they were? A.—Yes; I do not know what they are now.

Q.—Balance to credit of profit and loss, what is that? A.—I could not tell you that.

Q.—Ledger balances, organization expenses, and then the liabilities of the capital subscribed, debenture indebtedness, outstanding accounts, a surplus is shown of \$53,842.30, that is right? A.—Yes.

Q.—What debentures had you issued? A.—Just that amount, \$35,000.

Q.—Had it gone with the stock? A.—No, independent.

Q.—Separate and distinct altogether? A.—Yes.

Q.—Then Mr. Fitzgerald asked for a list of the shareholders of the Agency Company, and that Mr. Symons sends him, and that is the list showing \$300,900 subscribed. Then on the 11th July Mr. Symons writes again urging that the license be now issued. On the 14th July Mr. Fitzgerald asked for a duly verified amended list of shareholders, substituting the National Agency Company as subscribers for 6,075 shares instead of the trustees. Mr. Symons sends that on and then the license was issued. This is the original agreement with the Canada Accident company, you recognize it? A.—Yes.

Q.—This is 23rd October, 1901, between the Canada Accident Company and the National Agency Company. (Reads). That seems to be a typical agency agreement. Did you do any business with the Canada Accident under that? A.—Yes.

Q.—How long did you continue to act for them? A.—I do not remember, nearly a year.

Q.—MR. SHEPLEY: I will put that in.

MR. SYMONS: I merely put that in out of courtesy. I do not think this Commission has any jurisdiction to inquire into accident insurance.

—Agreement between the Canada Accident Company and the National Agency Company marked as Exhibit 95.

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Q.—You think you carried that on for about a year, and that would be about October, 1901, till the fall of 1902? A.—Yes.

Q.—Then what happened? A.—The agreement was terminated.

Q.—By a notice? A.—I think so.

Q.—How was it terminated, did you terminate it or did the other companies terminate? A.—My recollection is we did.

Q.—You see this letter dated 7th May, 1903, written to you by the Canada Accident Company? (Witness reads.)

Q.—Have you refreshed your memory? A.—Yes.

Q.—Did the thing terminate as they say? A.—I do not remember when it terminated, shortly after that.

Q.—As they say? A.—No, we did not reimburse them that money.

Q.—Did you do any business for them at all? A.—Yes.

Q.—Will your books show? A.—Yes, I think so, we did not do very much; we did something. About that time I think there was trouble in the Accident business, the rates were all cut so that we did not push it.

Q.—You can without a great deal of trouble tell me the volume of accident business you did under that agreement? A.—I do not think it was more than 25 policies altogether.

Q.—Where is that account in your books that are here? A.—I could not say.

Q.—See if you can find it for me.

MR. SYMONS: That has nothing to do with this.

MR. McLAUGHLIN: Here is a contract with an Accident Company—

JUDGE MACTAVISH: I think it had better be disclosed.

MR. McLAUGHLIN: Have we any rights?

JUDGE MACTAVISH: Yes.

MR. McLAUGHLIN: I submit, on what clause of your commission do you go into a contract between this company and the Canada Accident?

JUDGE MACTAVISH: I think if it is business connected with the Life Insurance Company we must go into it.

MR. McLAUGHLIN: There is so much time taken up unnecessarily.

MR. SHEPLEY: Q.—Will you get that? A.—The books is not here; it will have to be sent for.

MR. McLAUGHLIN: We will send for it. There may be some grocery accounts in it too.

MR. SHEPLEY: Have you the stock book here?

MR. SYMONS: I may say this, as I stated before lunch, it would give me pleasure to produce this stock book, entirely without prejudice to our position, but we do not apprehend that that is a matter which will be of interest to the Commission at all, the examination of the company's stock accounts. As a matter of fact, there was no stock subscription book—I understand that is what my learned friend asked for—all the subscriptions were made in the shape of applications, and they were of course all gathered together in a book for filing, not in rotation by any means, so that it would be impossible to say to what particular dates the applications would refer, but naturally all these applications and subscriptions were entered in that stock ledger. That stock ledger I produce would answer all practical purposes, but I do not wish to put that book on file. I do not think this Commission desires to investigate the individual accounts of the shareholders, they are not present. It is a matter altogether outside the purport of the Commission as I understand it, which is to inquire into life insurance business; and the matters pertaining thereto, not as to individual accounts, but gross subscriptions of stock might be asked for I take it, with some reason, but outside of that I do not think it is a matter that we should go into any further. I may say always in response to the inquiry of the Superintendent of Insurance we will be very happy to give him any information he calls for. We have done so. I may say this to my learned friend that the gentlemen who have been retained on behalf of the Commission, Mr. Dawson, and Professor Glover, are quite at liberty to look into the books. I do not understand they are public property, as it were.

MR. SHEPLEY: What do I get? —Mr. McLaughlin hands book to Mr. Shepley.

MR. SYMONS: They are pages 2, 3, 4, and 5 and no more.

MR. SHEPLEY: What is this? A.—This is the stock ledger of the National Agency Company.

Q.—The first page of the ledger has an account which is headed, "Capital stock account 1901, shares allotted"—that seems to be right? A.—Yes.

Q.—The first entry in the account is August 17th, "By 10,028 shares allotted, \$102,800, by 115 shares allot-

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ted, \$11,500." Are those entries intended to record real allotments of stock to subscribers? A.—Yes.

Q.—Then on the 17th you had allotted 1,143 shares of stock to persons who had subscribed? A.—Yes.

Q.—Amounting to \$114,300? A.—Yes.

Q.—That seems to have been an allotment of stock in excess of your corporate power, which only went to \$100,000 at that time? A.—The capital was increased to \$500,000 I think at that time or before that.

Q.—We will get the date of that; 28th August, 1901, you had your power to take stock increased to \$500,000, that is to receive subscriptions; that would be subsequent to this. You will tell me probably, which was reasonable enough, in all probability you did this after the passing of the resolution to increase your stock, and in anticipation of getting your powers increased? A.—I do not remember exactly, but I should think that would be reasonable and right.

Q.—In the month of November 238 shares were allotted? A.—Yes.

Q.—In December 91 more? A.—Yes.

Q.—In March, 1902, 1,091? A.—Yes.

Q.—In April 35? A.—Yes.

Q.—In May 197? A.—Yes.

Q.—In June 150? A.—Yes.

Q.—In July 252? A.—Yes.

Q.—In August 11? A.—Yes.

Q.—October 98? A.—Yes.

Q.—October again 475? A.—Yes.

Q.—October again 420? A.—Yes.

Q.—Making a total of how much? A.—\$420,100.

Q.—Then in January, 1903, 14? A.—Yes.

Q.—June 75? A.—Yes.

Q.—September 49? A.—Yes.

Q.—October 37, December 12? A.—Yes.

Q.—That makes a total number of shares down to the end of 1903 of 4,388, and the total par value \$438,800? A.—Yes.

Q.—In 1904, February 14 shares, August 14 shares, September 2, December 19? A.—Yes.

Q.—Then on the first April, 1905, 10 shares, 31st December, 1905, 212 shares; that would seem to make a total of 4,659 shares, or \$465,900 of par? A.—Yes.

Q.—Is that all the stock you have issued? A.—Yes, I think so.

Q.—Was that all issued at a premium of 25 per cent? A.—No.

Q.—How much of it was? A.—It was probably about 250 shares issued at par, the rest at 125.

Q.—Where will I find that in the book? A.—I could not tell you, I never kept that book.

Q.—(Turns to page 3) Can you tell by the appearance of that account whether these moneys which are called cash received include the premiums? A.—I could not say. I do not think it would, because that is merely a capital account. I think they would deal simply with the par value there.

Q.—Will these sums give us the total: at page 29 you get a total of \$22,131.25, and that is carried forward on page 36, and items added to it, till it amounts to \$35,162.50. Then the account commences anew, and you get \$14,858.90 more; does that seem right? A.—Yes, I think so.

Q.—Does that go forward still? A.—Yes.

Q.—That is increased on page 38 to \$24,754.75? A.—Yes.

Q.—Then it commences anew again; apparently that goes forward to pages 126 and 127 and amounts there to \$34,616.18? A.—Yes.

Q.—Is that the last premium you got of stock, in December, 1904? A.—I think it would be.

Q.—Let us take those three sums, \$35,162.50, \$24,754.55, and \$34,616.18; they make a total of \$94,533.43? A.—Yes.

Q.—That would be by way of accretion to the amounts paid in by the subscribers on capital stock? A.—Yes.

Q.—We will turn to the account of the Canada Accident.

MR. SYMONS: That is not there.

Q.—Yes, I saw something there of it, page 31.

Q.—Is that the business? A.—For the Canada Accident; those are the premiums that we received I think from time to time, premiums of stockyard business in Montreal.

Q.—That seems to have been a small affair? A.—Yes, it was not very much.

Q.—It amounted from December, 1901, to December, 1902, to \$363.03? A.—Yes.

Q.—In 1903 it amounted to \$40.25? A.—Yes.

Q.—That was the total amount? A.—Yes.

Q.—Are your minutes here? A.—Yes.

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MR. SYMONS: I may say in regard to that, that I have given instructions to my Secretary to copy out such parts of the minutes of the National Agency Company that contain any reference whatever to the North American Union Life or Canada Accident. Anything outside of that I take it pertains absolutely to the domestic affairs of the National Agency. In that respect I must decline to produce the books. I will produce verified extracts relating to these companies, but no more.

MR. SHEPLEY: My immediate desire is to get the authority for the issuing of the stocks, such of it as was issued at a premium, and the authority for issuing such of it as was not issued at a premium, otherwise; that is what I am after at the moment; but I do not understand that we are not at liberty to go into all these questions. I understand we are. Let us understand the position once for all. I am contending, and as I understand Your Honors have ruled, I am contending that inasmuch as this Agency Company is incorporated for the express purpose of being an insurance agent, and inasmuch as upon the evidence so far developed practically it is carrying on the business of life insurance, that I am entitled to just as much information with respect to its affairs internal and external as I am in respect of any insurance company that forms the subject of this inquiry specifically. I put the position as broadly as that, and I understand the ruling is as broadly put as that.

MR. McLAUGHLIN: The Commission is not as broad as that. The Commission authorizes the investigation of any company having a license issued by the Dominion of Canada, not the mere fact that the company is associated with an Insurance Company. If that were the case any Ontario Company might be investigated here. If this company were doing an insurance business, which of course it is not, it is doing the business of an insurance agent, and if it were doing it as an agency it would be doing it under an Ontario Charter; it has no license from the Dominion and it not within the Dominion.

MR. SHEPLEY: The Commission is not limited to companies practising under license of the Dominion, there is no such thing in the Commission. However I understood that had been ruled upon before, and I want to take the position once for all. It is tedious

to have to do it all over again every five minutes.

MR. McLAUGHLIN: If the Commission is authorized to investigate companies licensed by the Provinces and not having a Dominion license—

JUDGE MacTAVISH: We are dealing with this company now, and we think Mr. Shepley's questions are quite within the scope of our inquiry, and that this information should be disclosed.

MR. McLAUGHLIN: We are quite willing to produce anything that affects the inquiry. This company, the Union Life, started to do an industrial business in this country in competition with the big American Companies which have been doing practically the whole of that business up to the present time, and we do not think the Commission ought to take the position of a prosecutor—

JUDGE MacTAVISH: Oh no.

MR. McLAUGHLIN: The trouble is, while you restrict yourselves to investigating insurance it is all right, but if the Commission is to go into the affairs of every company and every individual, or every company such as the National Agency Company that is only indirectly associated with insurance, and the company has no reply, no opportunity to put in evidence, or make explanation, it simply means the Commission will be used for the purpose of destroying business rather than helping it, as it should. The Commission says "Operation of the various companies chartered by the Parliament of Canada or by any Province and licensed under the Insurance Act, transacting life insurance in Canada." If it is chartered by the Province and licensed under the Insurance Act that is within your purview; but if it is chartered by the Province and not under the Dominion Act, and confined only to the Province in which it is chartered then it is outside of this inquiry.

JUDGE MacTAVISH: We think the investigation must go on. We may say to you, Mr. McLaughlin, that every reasonable opportunity to explain any matter that you may find reflects on the company that you represent will be given to you.

MR. McLAUGHLIN: Simply the position is this, we have heard enough about Life Insurance now to know the trouble any company has to get through the first few years. It has to fight in the Courts and in the field the big American Companies in

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the business, and they would be very glad to see it crushed. So far as the operations are concerned of the National Agency we would be thoroughly satisfied to have them investigated if we had the opportunity of giving evidence, but we have not. This is not a desire to keep evidence from the Commission. If there was such a desire would any company have answered the one hundred and one questions which have been sent out to them without any subpoena or pressure at all? There is no necessity of going into the stock accounts of the National Agency Company. The Agency Company has a capital stock as a matter of fact paid up, and paid up with a premium, that is sufficient without going into it to see whether there was anything technically wrong with the premium that was paid up—I do not believe there was—but the company law we know is technical. Should we go into these things, spread abroad throughout the country that Mr. Shepley is of the opinion that the premiums was not lawfully called. It was called and paid in; is not that a fact sufficient for the purpose of this Commission?

MR. SHEPLEY: Now, Mr. Evans, will you get me the minute book, please? A.—I will do whatever my counsel advises me to do.

Q.—You either produce or you do not; let us understand; fortunately the powers of the Commission are wide enough to secure obedience to their ruling. The prompter you are the better, the more rapidly we will get on. A.—(The witness does not answer.)

MR. SHEPLEY: Will Your Honors give the witness a direction?

JUDGE MacTAVISH: You had better answer the question.

WITNESS: I want to hear from Mr. McLaughlin.

MR. McLAUGHLIN: My position is that we produce anything that has any relation to the business of these companies, the North American or the Union, but outside of that my opinion is that these people are not bound to produce.

MR. SHEPLEY: Will you get me the minute book please?

MR. McLAUGHLIN: I have answered for this witness, and I take that position that we should not produce.

MR. SHEPLEY: The witness has to take his position; the witness is not your client particularly so far as that, that I am aware; the witness

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is here upon oath to answer the questions that are properly asked him.

MR. McLAUGHLIN: I am very sorry there should be any difference of opinion, because there is no desire to keep anything from the Commission that can be of any use to them.

MR. SHEPLEY: Q.—After all, you are the witness that is before the Commission, I shall have to ask you to take your position; will you or will you not produce the minute book of the National Agency Company? A.—I will have to act on the advice of counsel and decline.

Q.—And you say you will not? A.—Yes.

MR. SHEPLEY: Now, Your Honors, I ask for a direction.

JUDGE MacTAVISH: We think it should be produced.

MR. McLAUGHLIN: I have made a suggestion to my learned friends that I produce this minute to them, go over it with them, and make a copy and put it in.

MR. SHEPLEY: The suggestion does not commend itself to me. I have a counter-suggestion, that my learned friend should hand the documents into my hands and I will take care of them, give them back to him; but I desire to examine these documents myself.

MR. McLAUGHLIN: I am not going to prevent you from examining them yourself, but the company do not feel they ought to go out of their possession in that way. I am not desirous of standing on a strict legal ground on these matters, but if any reasonable courtesy at all is given, we will produce everything, even whether it is proper or not proper. We do not want to be placed in the position of a company being sat upon and crushed without a chance to open our mouths.

JUDGE MacTAVISH: I think you may be perfectly sure that no improper use will be made of any documents produced, only such part of them as is necessary for the elucidation of some matter before us will be used. Purely private matters we would not think of——

MR. McLAUGHLIN: There have been a good many purely private matters gone into already in this investigation, not in the case of this company but in the other company's case, although we desired in that case that nothing public or private should be kept back.

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JUDGE MAC TAVISH: And no harm was done.

MR. McLAUGHLIN: Well.

JUDGE MAC TAVISH: Our desire is to prevent any injury to anybody, or to any interest.

MR. McLAUGHLIN: I have never seen a document in this company's case. I think if the matter will stand that way I will get the books. Really where the stock has been paid up there is no necessity of going into the elaborate question of whether all the technicalities of the law have been complied with or not. If there were some technical defect in the calling in of some stock, that is like a title deed of a man's property, that is privileged, and the company have no right to be asked to flaunt abroad and be faced with action and writs, that is if there was such a thing, and I am satisfied there is not.

JUDGE MAC TAVISH: I cannot see that there is the slightest danger of any prejudice of that kind to your clients.

MR. SHEPLEY: The terms of the statute are as follows: "(2) Such Commission or Commissioner shall have the same power to enforce the attendance of such witnesses and to compel them to give evidence as is vested in any Court of Record in civil cases; but no such witness will be compelled to answer any question, by his answer to which he might render himself liable to a criminal prosecution."

That is the power the Commissioners have.

MR. McLAUGHLIN: I will have that minute book brought up here on the understanding it is not to be used with reference to the private affairs of the shareholders.

MR. SHEPLEY: I am not going to make any understanding with my learned friend. I must have it free and untrammelled of any restriction imposed by my learned friend in respect of it.

MR. McLAUGHLIN: You may be entitled to certain things in the book, but it does not follow you are entitled to the whole book. My suggestion in that view was with reference to what you said, Mr. Chairman, that no matter of a private nature would be gone into.

JUDGE MAC TAVISH: What possible objection can there be?

MR. SHEPLEY: I trust I may be relied upon not to unnecessarily make known private matters, but, subject of course always to Your Honors' judgment upon the matter when it is

brought to Your Honors' attention, I must myself judge as to whether the matter is within the scope of the inquiry or not in the first instance; that is my duty to the Commission. If it seems to me to be within the scope of the Commission I shall not make it public unless the Commission authorizes me to do so, but I must myself see what there is, and judge of that. I am charged with my duty as counsel, and I am not charged with the duty of spreading abroad things that would injure people.

JUDGE MAC TAVISH: I understand Mr. McLaughlin has not himself had the opportunity of going over these books, and perhaps, Mr. Shepley you could go on with some other branch of it in the meantime and let Mr. McLaughlin go over these books and then exhibit them to you, after he has done so. Would that meet the situation?

MR. SHEPLEY: It inverts the order of my presentation of the case in a way that prevents it from being as satisfactory as I want to make it. Of course it is a pity that my learned friend was not instructed earlier, but if everything has to be inspected by new counsel before I am to be permitted to see it or go on with the inquiry I do not know when we would get to an end.

JUDGE MAC TAVISH: Can we get on now with this branch of the inquiry.

MR. SYMONS: I have sent for the books.

—The Commission waited from 3.20 to 3.45 P.M. for the production of the minute books. The minute books were then produced.

Q.—Will you find the minute with respect to the issuing of stock premiums? A.—Will that be it?

Q.—We will commence at the first meeting of the Board of Directors—no, we will commence a little further back; the directors were elected, and the remuneration fixed, certain allotments of stock, and on the 3rd September, 1901, the Board met. The President was in the chair—that was Mr. Symons, was it? A.—Yes.

Q.—Mr. Evans was present, that is yourself, and Dr. Millichamp. On motion duly seconded, it was resolved "That in accordance with the by-laws and resolutions of the shareholders in that connection at the general meeting held on the 22nd September, a circular letter be addressed and sent by the secretary to the shareholders inviting their subscriptions to the new

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issue of shares as per form now submitted and approved." What new issue of shares was that? A.—The first issue was issued at par, and the second issue was issued at 125.

Q.—The first issue was issued at par, how much? A.—I do not remember.

Q.—On this date there were 1,143 shares that had been subscribed for and allotted? A.—Yes.

Q.—Was that 1,143 issued at par? A.—No, not that much, I do not recall the amount.

Q.—"A call of 25 per cent. upon the new issue of stock, including any premium payable thereon be and the same is herewith made and shall be payable on the subscriptions therefor." What does that mean, that does not fix any premium, it says a call of 25 per cent. including any premium—perhaps we had better see the minutes of the general meeting of shareholders on the 22nd August. (Minute book of the general meeting of shareholders produced). I see at the shareholders' meeting in the report to the shareholders a statement was made that the total business of the provident branch of the North American had been transferred to and was now controlled by this company—(Reads minute on pages 4, 5, 6 and 7, down to the word "adopted"). Then the financial statement was presented: (Reads financial statement on page 7 of minute book). Then your balance sheet shows assets amounting to \$50,000. and liabilities, and a net surplus of \$1,417.88. Then, when you held your first shareholders' meeting your surplus was \$1,417.88? A.—Yes.

Q.—That was received and adopted; this agreement between you and the American Life was approved. Then, "That it be an instruction to the Board to promote," etc. (Reads on page 8). Then the following by-laws were passed, by-laws as to the annual meetings, as to special general meetings, as to the directors, as to board meetings; then as to calls (page 12) Then about the notice of calls. Moneys received to be deposited; auditors; "the board shall have power to invest the assets of the company," "the board may issue certificates of stock;" transfer of shares; the board may declare dividends and bonuses; transfer books. "Any shareholder desiring to introduce a resolution at any annual or general meeting of the company," etc. (Page 14)—that is a pretty drastic resolution, is it not—what is the object of that by-law? A.—I do not

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remember, it was incorporated with the others.

Q.—The next is a by-law increasing the stock; by-law authorising change of name to the National Provident Insurance Agency, Limited—that change was never made? A.—No.

Q.—Then the by-laws from one to thirty-five are adopted as the by-laws of the company. Then, there was a motion by Mr. Percy, seconded by Mr. Tucker, "That the new issue of stock," etc. (Reads on pages 16 and 17, to the words "board may determine.")

Then there was an election of directors. Then the shareholders met again on the 3rd September. Those present were Mr. Evans, Dr. Millichamp, Harry Symons, and by proxy held by Mr. Evans as named in the minutes hereinafter referred including proxy from Mr. Charles Percy. "The secretary reported that the petition for the increase of the capital stock had been duly presented to the Provincial Secretary," etc. (Reads minute on page 19). Then the minute of directors, "That a call of 25 per cent. upon the new issue of stock including any premium payable thereon be and the same is hereby made, and shall be payable on the subscriptions therefor." (Page 4). Let me see if I understand that correctly, there was so far as we have seen the minutes, new stock to be offered to the then existing shareholders? A. Yes.

Q.—There is no suggestion in the minute itself that it shall be offered to them at a premium? A.—I do not notice it there.

Q.—Now do you know whether a premium had been paid upon this stock? A.—No, the first stock was issued at par.

Q.—Well then up to the time of this meeting there were 1,143 shares that had been subscribed for. Was that all issued at par? A.—No. Some time between the time of the initial issue and the subsequent one, we decided to raise the stock to a 25 cent premium.

Q.—Then how much was issued at par to start with? A.—I think between 300 and 400 shares, but I am not sure as to the amount.

Q.—Are there minutes of the Provisional Board of Directors kept? A.—I don't know. These are the only ones I know of.

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Q.—You don't know of minutes of Directors at all? A.—No, this is the only book I know of.

Q.—Well how did you get the premium on the earlier stock paid before you organized? A.—I don't think I quite understand your question.

Q.—You say that in respect of the stock, the great bulk of the stock subscribed for and allotted before this general meeting on the 22nd of August, before this general meeting of shareholders, that 300 or 400 shares had been allotted at par and the balance of the 1,143 at a premium? A.—Yes.

Q.—Now I want to know by what authority that premium was collected, how was that brought about? A.—Well, I think it is in the minutes somewhere. I couldn't tell you now. It was no doubt done correctly in the first place.

MR. McLAUGHLIN: The stock applications themselves might have set forth the contract and been accepted by the company. That would fix the price that was to be paid.

MR. SHEPLEY: Have we seen all the books that you have which contain a reference to stock or stock subscriptions? A.—As far as I know. I don't know of any others.

Q.—Mr. Symons told us this morning of a book in which the original applications are. Is that here? A.—It is not here now.

Q.—We must have that too, if you please, Mr. Evans. A.—Have you the book there, Mr. McLaughlin?

MR. McLAUGHLIN: The original applications? They would be on sheets would they not? Are they bound into a book? A.—They are pasted into a big book.

MR. SHEPLEY: I see in addition to the agreement which we have seen there is a conveyance and assignment from yourself to the National Trust Company and from the National Trust Company to the National Agency Company. What are those? A.—That is the agreement to take over the business from the North American. It is turned over to the National Trust and by them transferred to the National Agency Company.

Q.—You had had an agreement of the 7th of November, 1900, with the North American in your name? A.—Yes.

Q.—In respect of a company which you were then forming, which was the

National Agency Company? A.—Yes, turned out to be.

Q.—Then what had you done with the National Trust Company? A.—An agreement was made with the National Trust Company to assign the agreement that I had with the North American Life to the National Agency Company. A copy of it is here.

Q.—Let us have copies of those two documents and we will see what they are. A conveyance from yourself to the National Trust Company, and an assignment from the National Trust Company to the National Agency Company? A.—They are here somewhere on file.

Q.—What did that assign, the business? A.—Yes.

Q.—What was the reason for putting it through the National Trust Company? A.—To provide for the initial expense of forming the National Agency Company, that it should be paid by me or those who came in with me and the agreement then assigned to the National Agency Company.

Q.—We will see the documents. This is dated the 2nd of January, 1901, from yourself to the National Trust Company, hereinafter called the Trustee. It recites the agreement of the 7th of November, and it recites that you have already progressed towards the organization of the proposed company, that you intend to continue in the same, and for that purpose that you have requested the Trust Company to hold the agreement and all benefits to be derived therefrom in trust to be invested in the proposed company? A.—Yes.

Q.—Subject to the provisions that the party of the second part has expressed its willingness to do, hereinbefore contained, on the consideration hereof. Then you assign, transfer and set over to the trustees the agreement with renewals and so on, with the benefits and advantages thereof, subject to the provisos hereinafter contained. The trustee shall assign the agreement and all its benefits and advantages, subject to the performance of any and all provisions required to be done, performed and paid before the organization of the company on your part, and subject to the payment by the proposed company of the sum of \$4,000. What was that? A.—That was the consideration for the turn over of the business.

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Q.—That you were to get? A.—Yes, out of which was to be paid the expenses of organization.

Q.—This says, "The National Trust Company is to transfer to the company, subject to the performance of any and all provisoes and conditions required to be done, performed and paid prior to and subsequent to the organization of the company" by you, and subject to those and subject to the further payment by the proposed company to the party of the first part of the sum of \$4,000? A.—That is right.

Q.—Were you to get \$4,000 in addition to an indemnity? A.—No, there is no indemnity.

Q.—The National Trust Company according to the terms of this document, was to hand over to the National Agency Company the property you were vesting in it, but subject to the performance of any and all provisoes and conditions and payments therein set forth, and required to be done and performed by you. That is all set over to the National Agency Company, subject to the performance of the things that you were bound to perform? A.—Yes.

Q.—Well, was not the National Agency Company to do all that? A.—The indemnification, yes.

Q.—That is all I am saying. You were to be indemnified for all the things you were required to do under the agreement by the National Agency Company, and you were to be paid besides \$4,000? A.—Yes.

Q.—I see an entry here; organization expenses, 1901, August 17th, to amount \$4,137.41. Where can I find an account of that? A.—I cannot tell you.

Q.—Is that a matter in respect of which you were to receive \$4,000? A.—I couldn't tell you.

Q.—You must try to clear that up for us. You were to get at all events \$4,000? A.—Yes.

Q.—Who was to pay that? A.—The National Agency Company.

Q.—That does not appear in the agreement made in August between the North American Life and the National Agency? A.—No, that was an entirely separate agreement.

Q.—Then you agreed to continue in the progress of incorporation and organization down to the first allotment. Then the National Trust Company accepts the trust, provided that it is not to be held liable to do or perform any of the conditions or for

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the payments of the sums and expenses herein mentioned.

MR. McLAUGHLIN: The agreement says that Mr. Evans is to pay all the expenses of organization.

MR. SHEPLEY: I think it says so.

MR. McLAUGHLIN: What you have repeated was that he was to receive payment for all of these things and \$4,000 besides.

MR. SHEPLEY: No, you ought to listen a little more closely. I said to be indemnified in respect of all the things he was to be bound to do under the agreement. That is there as Mr. Evans says.

MR. McLAUGHLIN: I do not understand that the \$4,000 was paid to Mr. Evans, but was to reimburse him for the expense of promotion. (Original conveyance, Evans to National Trust Company produced, copy substituted by consent and filed as exhibit No. 96.)

MR. SHEPLEY: Then this agreement was made in July between the National Trust Company, the National Agency and yourself? A.—Yes.

Q.—It recites the conveyance from you to the National Trust Company; that in consideration of \$25 paid to the National Trust Company, the agreement between yourself and the North American is turned over, subject to the performance of any and all provisoes, conditions and payments which you were to perform, and subject to the payment by the National Agency Company to you of the sum of \$4,000. Then I put that in. (Original assignment National Trust Company to National Agency Company dated July 16th, 1901, produced. Copy substituted by consent and filed as exhibit 97.)

Q.—Then you will have these other documents here in the morning, and make a note about the organization expenses; I want that turned up? A.—I have that.

Q.—I will leave that for the moment and will take up the conveyancing that took place after the incorporation of the Union Life. Now the National Agency Company had brought into being the Union Life Insurance Company, with the intention of having transferred to the Union Life Company the provident business which it had been carrying on, originally the property of the North American? A.—Yes.

Q.—The conveyancing was done to bring that about. I see here a deed

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of the 16th of July, 1902, to which the North American is the party of the first part, the National Agency the party of the second part, and the Union Life, the new company, the party of the third part.

MR. SYMONS: This is the original.

MR. SHEPLEY: Thank you. It recites the agreement of the 2nd of August, 1901, between the North American Life and the Agency Company transferring the Provident Branch to the Agency Company. Then it recites that the Union Company has been duly incorporated and has received a license to carry on the business of life insurance. Then it goes on to provide that the parties agree as follows: First the Agency Company by and with the consent of the insurance company, that is the North American Life? A.—Yes.

Q.—“Transfers to the Union Company all its title to the branch of the business known as the Provident, to the extent and so far only as it has heretofore been done by the Agency Company?” A.—Yes.

Q.—“And represented by the policies of the insurance company now in force, acquired or taken over or issued through the Agency Company, a schedule being annexed?” A.—Yes.

Q.—“Together with the books, printed matter,” etc., relating thereto and the interest of the Agency Company in a sum of \$8,078.63 and interest thereon at 3½ per cent. paid to and now held by the Insurance Company as reserve. Subject to the terms and conditions relating to the said reserve hereinafter expressed. And the Union Company accepts the transfer. Now that handed over to the new company not only the original business which the North American Life had handed over to the Agency Company but all the business which by way of accretion to that had been acquired by the National Agency Company? A.—Yes.

Q.—Then the new company, the Union, came into a covenant with the old North American to indemnify them in respect of all claims under these policies? A.—Yes.

Q.—Then the next provision is that the Union Company will leave that \$8,078 of reserve and interest in the hands of the North American? A.—Yes.

Q.—And they agree to keep depositing with the North American in cash

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or securities what is necessary to maintain that reserve from time to time. A.—Yes.

Q.—Then there is a provision, I think the same provision with respect to deferred premiums being credited on that reserve? A.—I think so. It is substantially the same as the first one as far as I know.

Q.—Then there is a provision for the North American releasing that reserve from time to time as claims come in and are paid by the Union or as the balance in respect of which it is being maintained? A.—Yes.

Q.—Then you give permission to the Union Company to use the name of the old company in connection with carrying on the old business? A.—Yes, the collection of premiums and such things as that.

Q.—From this time of course the Union Life would write policies in its own name instead of the name of the North American? A.—Yes, the 16th of July, 1902.

Q.—Then the North American releases the Agency Company from the further performance of the old agreement with it? A.—Yes, because the Union takes it on from that time.

Q.—The Agency surrenders its lease and the Union Company agrees to renew it for \$600 instead of \$300? A.—Yes, we get more space.

Q.—Then there is a provision that if the Union Company makes default, a notice is given. Then the reserve may be forfeited by the North American Life? A.—Forfeited to them is it?

Q.—I mean the act of forfeiture by them will forfeit the reserves so that they will get the benefit of them? A.—Yes.

Q.—Of the reserves and deprive the Union of that benefit? A.—Yes. (Original agreement between the North American Life, the National Agency Co., and the Union Life, dated July 16th, 1902, produced. Copy substituted by consent and filed as Exhibit No. 98.)

Q.—Then the next agreement made on the same day is between the National Agency and the Union Life, and the purpose of that agreement is to hand over from the Agency Company to the Union Life that Provident business? A.—Yes.

Q.—Then the value of that was measured for the purposes of the agreement at \$34,732.05? A.—Yes.

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Q.—Which the Union Life was to pay to the Agency Company? A.—Yes.

Q.—How was that \$34,732.05 arrived at? A.—I don't remember. So many times the debit, whatever the debit was.

Q.—Seven times? A.—No, it was not seven.

Q.—What was it? A.—I don't remember now but I can find that out.

Q.—Was it more or less than seven? A.—More, but I don't remember the number.

Q.—You, the National Agency Company, were not so liberal to your child as your parent was to you? A.—That is right.

Q.—You bought at seven times and you sold at a higher price? A.—Yes.

Q.—Then the Union undertook to indemnify the Agency Company against all claims in respect of this business? A.—Yes.

Q.—That was funny too. You were going to control the Union Company were you not? A.—Yes, substantially.

Q.—Then the Agency Company were to subscribe for and purchase or cause to be subscribed for and purchased all the new authorized shares of the capital stock of the Union Company at a premium of 5 per cent., and pay the whole of the premium at once together with a call of 10 per cent., making an immediate payment in all of \$150,000? A.—Yes.

Q.—Was that done then? A.—Yes.

Q.—\$150,000 was put in? A.—Yes.

Q.—Then this valuation of the business, the \$34,732 was to be taken and considered as part payment of the said premium and call? A.—I don't remember exactly. Yes, practically so at any rate.

Q.—And the Union Company acknowledged the receipt of the same and released the Agency Company therefrom. Then there was an assignment of the right to the reserves in the hands of the North American Life, from the Agency to the Union? A.—Yes.

Q.—And that also was to be part payment, which made \$42,800 and then the balance was to be paid in cash or secured by the promissory note of the Agency Company. Then comes a provision which I shall trouble you a little about because a good deal of what happened afterwards seems to have de-

pended upon this. "It is a further term of these presents that the Union Company may, if it shall consider the same to be expedient in the conduct of its affairs, increase the said premium from time to time by means of supplementary calls on premium account and said supplementary calls shall not exceed a total with the 5 per cent. aforesaid of 10 per cent. upon the capital stock of the Union Company, the Agency Company agreeing on its part to pay or cause such supplementary calls to be paid as and when the same are made. Provided that this provision shall not preclude the Agency Company from contributing further sums on premium account if it shall see fit so to do. The Agency Company then binds itself to pay a further 5 per cent. premium upon the whole of the capital stock of the Union? A.—Yes.

Q.—Which would be another \$50,000? A.—Yes.

Q.—And it reserved to itself the right to contribute further sums to the premium account of the Union Company if it saw fit to do so? A.—Yes.

Q.—All this time it was to have the absolute control of the Union, as it did have and it could force any agreement it liked upon it could it not? A.—As the leading stockholder I suppose it could.

Q.—As the only stockholder, it could control absolutely the policy of the Union? A.—Yes largely.

Q.—Unless the Union controlled its policy.

MR. McLAUGHLIN: A kind of reciprocal relation.

MR. SHEPLEY: Co-incident Boards of Directors? A.—No. Some Directors of one are not Directors of the other and vice versa.

Q.—Then I will put that document in. (Original agreement between the National Agency and the Union Life, dated July 16th, 1902, produced. Copy substituted by consent and filed as Exhibit No. 99.) Then there was still a third agreement I think, Mr. Evans between the Union and the National Agency Company, also bearing the same date of the 16th of July, 1902? A.—Yes, that is the working agreement. (Original produced. Copy substituted by consent and marked Exhibit 100.)

Q.—That is the agreement by which the Agency Company was made at all events in name the agent for the Union Life? A.—Yes.

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Q.—It recites that the Insurance Company is established in business in various parts of Canada and is desirous of further extending the same in all its branches. That is it is established by virtue of the business that was handed over, by virtue of the last agreement we looked at? A.—Yes.

Q.—Then it recites that the Agency Company has arranged with the Insurance Company for the extension of the said business of the Insurance Company? A.—Correct.

Q.—That means that the Agency Company was going to extend it? A.—Yes.

Q.—Then the Insurance Company appoints the Agency Company its managing agent for all branches of its business, and the entire premium income of the said Insurance Company shall be deemed to be hereafter received solely through the Agency Company as its Managing Agent whether any or all of such premium income be actually so received or otherwise? A.—Correct.

Q.—Then whatever premium income the insurance company derives, no matter from what source, whether by its own exertions, the exertions of its agents, whom it retained and paid, that all premium income was to be considered as being earned solely by means of the agency company? A.—Yes.

Q.—Then the next clause deals with the moneys that the insurance company may pay out. All moneys paid out by the insurance company, with certain exceptions, which I will come back to in a moment, "shall be deemed hereafter to be paid out for and on the sole behalf of and as an advance to the Agency company as its Managing Agent herein, and all such payments to be actually so made or authorized, provided that the liability of the Agency Company herein shall not at any time exceed 80 per cent. of the gross commissions to which it may be entitled under the terms of these presents." That, leaving the exceptions out for the moment, is a provision by which the expenditures that the Insurance Company may make are to be considered as expenditures made in the performance of its duty as agent by the Agency Company? A.—Yes.

Q.—And there is a provision that that is to be limited to 80 per cent. of the Commissions that are afterwards fixed by the agreement? A.—Yes.

Q.—That is, if I understand it, that the different expenditures the Insurance Company may make, leaving the exceptions out for the moment, if it costs them 100 or 120 or 200 per cent. of the premium income, the Agency Company is still to get at least 20 per cent. of the gross commissions? A.—Yes, I think so.

Q.—Then the exceptions are important. Here are things which the Insurance Company might pay out without any recourse whatever to the Agency Company in any shape or form. Claims, printing, furniture, supplies, and such head office expenditures in respect of or caused by its agency work in all its branches. I do not know that I have given it to you quite correctly. Perhaps the exception stops at the word expenditures. All moneys paid out by the Insurance Company in respect of its agency work in all its branches; except for claims, printing, furniture and supplies, and such head office expenditures? A.—Yes, the idea being that the Agency Company are furnished the funds for the working of the business outside.

Q.—Up to 80 per cent. of the gross commissions? A.—Yes.

Q.—But that its printing or furniture or supplies or other such head office expenditures? A.—Would be paid by the insurance company.

Q.—In addition to any excess over 80 per cent. of the gross commissions? A.—Yes.

MR. McLAUGHLIN: Gross commission; not commissions.

MR. SHEPLEY: Then the next clause is that all agreements, contracts, or instruments of like effect in connection with the Agency work shall be deemed to be made on the sole behalf of the Agency Company, and that no benefit shall accrue to or liability be created against the insurance company. That is, that whatever agreement in the nature of agency agreements the insurance company might enter into with other persons, those were all to be considered for the benefit of the Agency Company? A.—Yes.

Q.—How have you operated since this agreement was made? Who has done the actual work of canvassing and getting insurance? A.—The agents.

Q.—Who appoints them? A.—The Union Life.

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Q.—Has the Agency Company appointed any agents at all? A.—Not directly.

Q.—They have not appointed any at all have they? A.—All the agents who were appointed are appointed under that agreement.

Q.—But they were appointed by and paid by the Union Life? A.—Yes.

Q.—Has the expenditure incurred by the Insurance Company in respect of that class of work fallen below or exceeded 80 per cent. of the gross commissions? A.—It has exceeded.

Q.—Has it exceeded 100 per cent.? A.—Yes.

Q.—Has it exceeded 150 per cent.? A.—Yes, I should think so.

Q.—Then the next provision is that after paying to or crediting the Agency Company with the commissions hereinafter referred to, any balance of moneys paid out in excess of such commissions by the Insurance Company under clause 3 above, shall be an express and admitted debt due to the Insurance Company, in the nature of an advance made by the Insurance Company to the Agency Company. That of course is all subject to this 80 per cent. clause? A.—Yes.

Q.—And it has never therefore been of any practical utility as far as the Insurance Company is concerned? A.—It would not be for some years.

Q.—Has not been up to the present time of any practical utility? A.—No.

Q.—In other words, no case has arisen under it? A.—No, not yet.

Q.—Then we need not trouble about how that hitherto non-existent debt has been required to be secured or paid. Now comes the provision for commissions. The Insurance Company agrees to pay, and the Agency Company to accept the following scale of commissions. (a) On the premium income received by the insurance company in respect of its weekly branch business and monthly payment provident branch business a commission of 50 per cent. of such income. That is right? A.—That is right.

Q.—The Insurance Company employs and pays the agents, the expenditure incurred in canvassing the field is 150 per cent. of the gross commissions, but the Agency Company is entitled to 50 per cent. of the whole? A.—Out of which it has to pay the expenses.

Q.—Has to pay up to 80 per cent.? A.—Yes, that is right.

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Q.—“(b) On the premium income in respect of the Provident branch policies payable other than by monthly payments, commissions of 100 per cent. of the first year's premiums, and 30 per cent. of the renewals thereof.

(c) On premium income received by the insurance company in respect of all policies in the general branch.” That is, yearly, half-yearly or quarterly? A.—Yes.

Q.—“Commissions of 90 per cent. of the first year's premium, and 10 per cent. of the renewals thereof.” A.—Yes.

Q.—Now if your insurance company ever gets into such a position that its premium income will be as great as the outgo in connection with securing and obtaining insurance, then these commissions will obtain in full vigor? A.—I don't think I quite understand your question.

Q.—Supposing for instance you have a premium income on the business mentioned in paragraph A, weekly branch business, and monthly payment Provident branch business, of \$30,000 a year, and your expenditure in connection with that branch are \$27,000, there will be a profit there? A.—Yes.

Q.—Then out of the \$30,000 of premiums, the National Agency Company will sit down and receive \$15,000? A.—After paying the expenses.

MR. McLAUGHLIN: The National Agency Company will be liable for all the expenses up to 80 per cent.

MR. SHEPLEY: If you will let the witness pay attention to my question, until I get it answered. The premium income is to be divided in half? A.—Yes.

Q.—And 50 per cent. of it paid to the National Agency Company? A.—As against the expenses which it has to provide.

Q.—Certainly, in any case no matter how much it costs to get that business, the National Agency Company is getting 20 per cent. of these commissions? A.—Yes.

Q.—And that is clear and sure, and no expense against it? A.—Yes, that is right.

Q.—Then there is a provision with respect to when these commissions are to be paid. Then there is a provision that no commission shall be paid by, or any liability in respect thereto, ac-

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crue or be deemed to accrue against the insurance company which will result in the surplus on policyholders account being reduced to an amount less than \$100,000 as the same may be ascertained at the close of each year. What was the object of that clause? A.—To prevent the impairment of the Union Life capital at any time by the expenditure.

Q.—The 10 per cent. of the million paid into the coffers of the Union Life Company was never to be impaired? A.—That is right.

Q.—Was that to keep the Union Life Company from getting into trouble with the licensee? A.—No.

Q.—What was it for? A.—So that it would always be in a strong position in that way. A great many other companies have impaired their capital in the early years and we wished not to.

Q.—So that it might always have apparently \$100,000 of unimpaired capital? A.—So that it would always have \$100,000 of unimpaired capital.

Q.—That is you do not count the premiums. However, we have not come to the premiums yet. Then the usual provision for access to the books both ways, and a year's notice in writing to terminate the agreement. Then the Agency Company have the free use of such parts of the various offices as may be required for the purposes of the Agency Company. They do not pay any rent? A.—The Agency Company.

Q.—Yes. A.—Yes, I think it is \$30 a month.

Q.—There does not seem to be any provision in this. They are to have free use of such parts as they require? A.—They do now.

Q.—You think that there has since that been an arrangement by which they do pay something for the office accommodation? A.—Yes.

MR. SYMONS: Since they went into the new premises.

MR. SHEPLEY: Then there is the old provision about not creating a partnership or quasi partnership, and that there is to be an expressed and admitted debt and not any relation that might be construed as a partnership.

(At 4.45 adjourned to 10.30 on Tuesday the 8th day of May, 1906.)

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TWENTY-SECOND DAY.

MORNING SESSION.

Toronto, May 8th, 1906.

MR. SYMONS: My learned friend yesterday asked me to produce the correspondence that led up to the granting of the first letters patent of the National Agency Company. There is actually no correspondence that I can find except one letter that I have here, when I wrote to Mr. Lumsden with reference to the name of the Company. I may say this that all the negotiations or discussions on the subject were personally between Mr. Lumsden and myself, naturally, when the question came up about, both as to the name of the company and the clause which was put at the end of the letters patent giving notice of the names of any companies for whom they might act as agents; they were settled there, and I think Mr. Lumsden and I framed that provision about giving notice which was deemed to be perfectly reasonable. His idea was, if my recollection is correct that he thought the Department should be kept advised as to what corporations the Company represented in these matters.

MR. SHEPLEY: Q.—There were some matters we made note of yesterday to inquire into, have you those? A.—Yes, I think so. The stock book is here.

Q.—Those are the original applications for stock? A.—Yes. Then the number of times, that was made up but has been left at the office. I will get that by telephone if you will permit me.

After inquiry over telephone the witness said: "The amount of debit was \$2,316, and the payment 15 times."

MR. TILLEY: The monthly debit? A.—Yes.

MR. SHEPLEY: Q.—That was on the transfer of the business, the National Agency to the Union Life? A.—Yes.

Q.—What else is coming? A.—The organization expenses, that is down there. (Statement produced).

Q.—Total \$4,137.41? A.—That is right.

Q.—That is very substantially composed of commissions on the stock subscriptions? A.—Yes.

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Q.—And travelling expenses in connection with that? A.—Yes.

Q.—I see one person engaged in soliciting subscriptions got commissions to the extent of \$1,307, and another to the extent of \$545, another \$500, and another \$456; and the travelling expenses are nearly \$800—that seems to be right? A.—Yes.

Statement of organization expenses filed as Exhibit 101.

Q.—Is that taken from this book? A.—Yes, this is the little cash book kept prior to the organization.

Q.—This is the promoters' cash-blotted? A.—Yes.

Q.—What is this? A.—Transfer account A. E. Webb, that is Mr. Webb, the late Manager of the Union Bank of Canada, Quebec.

Q.—What does transfer account mean? A.—He subscribed for 100 shares of stock and used his influence in the City of Quebec for getting other subscriptions of stock, and he transferred to us \$7,000 Port Hood Coal Company bonds and \$5,000 Quebec Railway, Light & Power bonds, and this \$500 is the amount that was allowed him in consideration of that transfer.

Q.—That was a sort of commission? A.—Yes. He used his influence down there for us.

Q.—Let us see what is the nature of this book, is it your writing? A.—I think so, most of it.

Q.—What is that first item of \$200? A.—That is subscriber paid on account of subscription for stock.

Q.—That is a subscriber for stock who took 20 shares and paid \$200 on account? A.—Yes.

Q.—A good many of these are of that nature? A.—Yes.

Q.—Whenever you see the letters "Sh" for shares? A.—Yes.

Q.—What does "Bal" stand for? A.—That is balance.

Q.—"Exchange," that is on cheques received from subscribers, I suppose? A.—Yes.

Q.—Advance for expenses, Plummer, travelling expenses; is that printing account? A.—Yes.

Q.—Generally speaking we have the nature of this; this does not seem to have dates in it? A.—That was just a preliminary blotter.

Q.—You kept it yourself? A.—Yes.

Q.—You do not seem to have thought it necessary to insert any

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dates? A.—It was all turned over to the auditor when he made out his statement.

Q.—Before coming to the later day, and for the purpose of inquiry, the short glances I have had at these original subscriptions for stock would lead to the inference that you issued 65 shares only at par at the beginning? A.—I do not remember the number.

Q.—It was a small number? A.—Yes, comparatively small.

Q.—I am speaking now of the National Agency? A.—Yes.

Q.—These applications all seem to be dated in January, 1901? A.—Yes.

Q.—That was before your charter was obtained, your charter not having been obtained till the following June? A.—No, January.

Q.—And this was in January; I see that in March you had a different form of application prepared calling for a premium of 25 per cent. on the capital stock? A.—Yes.

Q.—Will you tell me in what book the resolution will be found which authorizes that? A.—I should think it would be in the minutes.

Q.—There are three sets of minutes, which set would it be in? A.—I think it would be in the directors' first minutes; Mr. Symons could speak with more authority than I could on that.

Q.—These are the Directors' minutes, can you find out yourself quickly—there must have been one before it, because this is September, 1901, and this subscription is in March? A.—This book appears to begin right at the annual meeting.

Q.—The other one we have not got? A.—I do not know of any other except this one.

Q.—Did not the directors keep any other minute book than this? A.—I don't know; Mr. Symons could tell you about that. I did not keep the minutes, not altogether.

Q.—Do you say, then, as far as your knowledge is concerned this is the first minute book you know of? A.—Yes, I can say that definitely.

Q.—You are not able to tell me, I understand you to say, on what authority the 25 per cent. premium was called for in the month of March, 1901? A.—No, I cannot.

Q.—Then did you subsequently alter the rate of premium? A.—Yes.

Q.—Under what circumstances was that done? A.—That was a resolution of the Board, I believe.

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Q.—Do you happen to remember when that was? A.—I think it was some time the latter part of 1902, but I am not sure as to that.

Q.—I will show you a subscription or two so that your attention is called to it; you have, commencing here at page 46 of this book, another printed form of application calling for a premium of 50 per cent? A.—Yes, that would come under the resolution I spoke of.

Q.—Was that adhered to while it was in force, or were some of the people fortunate enough to get off with a less premium? A.—Only those who subscribed originally at a different rate.

Q.—Do you think so? A.—Yes.

Q.—I show you some here at 30 per cent? A.—I can explain about that. The first subscription was made 25 per cent. called up, subsequently different calls were made of 25 per cent., making in all, bringing the entire stock to a fully paid basis. During the making of those calls there were many shareholders who were unable to pay the balance of their subscription, and rather than cause them to forfeit their shares, which they would have to do if we forced them to pay, we allowed them to transfer some of their stock away at such price as we could get for it, and you will notice these blanks read—

Q.—This is a blank that read 50 per cent., and that fifty is struck out and thirty put in? A.—Well, that was transferred.

Q.—There is another fifty struck out and thirty put in? A.—I do not remember that. Probably those men had the right to come in at 125, and there were none of the old blanks to be had and the new ones were used.

Q.—But they do not come in at 25, they come in at 30? A.—I cannot explain that except they were transfers: I think that is what they are.

Q.—They look like subscriptions? A.—If you will allow me to find another form—there is the form, it requests us to allot or transfer to them (refers to form on page 177).

Q.—Now does that explain the entry of the other man who gets it at a premium of thirty? A.—It would depend on whatever the man who was selling was willing to take for his stock.

Q.—What do you mean? A.—A man might have paid 125 for the stock and wished to dispose of it, and not being able to pay up the balance of

his calls he would take 130 or 135, or whatever he could get.

Q.—Would you know about that? A.—In some cases, because we wished to assist the shareholders as much as possible so that they would not forfeit their shares; otherwise if we had forced the collection of the subsequent calls they would have forfeited their shares altogether.

Q.—I can understand all that resulting in your getting a transfer from some shareholders to a person who applied to you as this person did, but I cannot understand how that applies to applications to have stock allotted followed by an allotment? A.—It probably should have been taken on this application. Probably the agent who took the application did not have one of those with him.

Q.—Do you say that as a matter of fact or just reasoning it out in your mind? A.—Reasoning it out, because I cannot tell whether he had the other form with him or not.

Q.—You say the company did not consciously issue stock at a premium of 30? A.—No.

Q.—You were getting uniformly 25 while the 25 period continued, and when the 50 period was on you were uniformly getting 50? A.—Yes.

Q.—With the exception you have told me? A.—With the exception of those who came in originally had the right to subscribe at the original rate.

Q.—I found a trace of that last night, and that was said to be justified under a minute of the 22nd August, 1901; see whether that is the minute we were speaking of yesterday when you were in the box. (Minute in book of National Agency Company)? A.—I do not see it under that date.

Q.—I call your attention to page 38 of the Executive minute book, where this entry occurs, 20th October, 1902 (Reads minute beginning with the words "Application following for shares" down to the words "with payments as shown were accepted and allotments made accordingly")? A.—Is there an Executive minute on that date? It is not in the Directors' minute.

Q.—We will see whether it is here (in the Executive minutes)? A.—I see nothing there. Is the Shareholders' minute book there?

MR. TILLEY: Yes. Perhaps this is the resolution on the 22nd August, 1901.

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MR. SHEPLEY: Is that the resolution? A.—I think so.

Q.—That is the one we did read yesterday afternoon? A.—I think so.

Q.—That refers to the new issue of stock when authorized by letters patent "Shall after providing for the applications now in hand," etc. (Reads minute on page 17 of shareholders' minute book, of the National Agency).—that is the resolution you think is referred to, on the 22nd August, 1901? A.—Yes.

Q.—On the 20th October, 1902, you see the three gentlemen named here, who are all directors, get stock at par by virtue of that resolution? A.—Yes.

Q.—Did you ever hear of any month's notice being given to these gentlemen? A.—I don't remember.

Q.—Of course the Board of the National Agency was in control, or the Executive Committee in control while that Executive minute was being made. Just give me in outline a concrete instance—I don't mean the case of A or B, or John Smith or Thomas Jones in that sense, but I want you to assume that a shareholder is in the position that you spoke of a moment ago—supposing I were a shareholder, I came to you and I said "I am not able to pay these calls, and I don't want my stock forfeited," go through the transaction with me and show me what you would do? A.—We would advise one of our agents in the field who are selling stock that there was stock to be sold, some gentleman could not pay, and he would take an application on one of these regular forms, and the stock would be transferred to the new subscriber.

Q.—Give me figures—supposing I were the shareholder, and I would say I want at the rate of 125 for what I hold, that is what I have had to pay you? A.—The stock would be sold at 125 to some other subscriber, and the original subscriber would be relieved to the extent of the number of shares that were transferred to the second subscriber.

Q.—Some part of this time you were issuing stock at a premium of 50? A.—Yes.

Q.—Supposing I were willing to take 125 what would you do? A.—We would sell it for 125 for the subscriber.

Q.—Supposing you got an original application from the purchaser at 150? A.—I do not quite grasp what you mean.

Q.—Supposing I were to get at the rate of 125 and you had a subscrip-

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tion from your purchaser at 150? A.—We would allot that new stock.

Q.—What would you get? A.—I would get the premium, 50 per cent.

Q.—You told me a while ago that a case I pointed out to you here of 130 might possibly be the case—you said you were reasoning, but you gave that answer—might possibly be the case where the wrong form was used; I want you to take that case, supposing a wrong form was used, and the purchaser offered 130, what would you do? A.—We would credit the original shareholder with the difference between what he paid and what he received.

Q.—You say the original subscriber would get the benefit of the whole thing? A.—Yes.

Q.—No charge for the services of your agent? A.—Yes; that would be deducted of course.

Q.—Your agent would get a commission upon that? A.—Yes, it would be charged to the original shareholder.

Q.—Was there a very substantial number of those transactions of which you speak? A.—Yes, quite a large number.

Q.—Running to perhaps how many shares? A.—I don't think I could answer that question, but certainly quite a large number.

Q.—Do you mean as much as a thousand and shares? A.—Yes, it might be as many as a thousand shares.

Q.—Can those transactions with time and labor on the part of somebody be collected from the books you have kept? A.—I should think they could.

Q.—I showed you yesterday, you having first produced it, this letter from the accident assurance company with which you had the contract of agency? A.—Yes.

Q.—I pointed out to you that this was written more than a year after your contract? A.—Yes.

Q.—And that in it the accident company complains you have not made any attempt to carry out your agreement? A.—Yes.

Q.—And you showed me some few transactions upon a page of the book we were looking at yesterday? A.—Yes.

Q.—Trifling in amount, less than \$400 altogether? A.—Yes.

Q.—And there is a suggestion that the matter shall be settled between your company and the accident company by your paying \$140 to reim-

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burse the actual outlay that they were at in preparing to carry out the agreement? A.—Yes.

Q.—What was done with regard to that? A.—I don't think we made any payment, except it may have been enough to reimburse them for part of their loss in printing of policy forms and things like that. I cannot say what the amount is, but it was not that amount I know.

Q.—You did make them a payment intended to reimburse them for expenses they had been at in printing forms?

MR. SYMONS: There was no payment. We did not recognize liability.

A.—I don't know whether we finally decided to pay or not. I was not there.

MR. SHEPLEY: Very likely Mr. Symons is entirely right. I am not saying a word to the contrary of that. That at all events was the end of your dealing with the Accident Company? A.—Yes.

Q.—Then after you formed the Union Life and became the proprietor of a life insurance company, we have seen the agreements that were made, and you have told me that the Union Life went on doing the business, appointing and paying agents, and so on, and at the end of that year, 1902, you made a return to the Government, that is the Union Life Company made a return to the Government? A.—Yes.

Q.—And can you remember now whether the return as you made it was in the form in which it appears in the blue book? A.—It was in the form provided by the Government.

Q.—Were the contents of it the same as the contents of the blue book, or was there some alteration made at the instance of the Government after he inspection? A.—I don't recollect of any.

Q.—That sometimes happens, Mr. Fitzgerald told us, in the case of some of these companies? A.—Yes, I don't remember that there was any change made in ours.

Q.—Then with respect to this Government statement; the first statement is as to the capital, \$1,000,000 authorized and subscribed for; paid up in cash, \$100,000. That you have told us about already? A.—Yes, that is correct.

Q.—When the Union Life commenced business after its incorporation, the only money it had to carry

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on business with of course was that \$100,000? A.—That is so.

Q.—Had no other assets? A.—None.

Q.—That \$100,000 paid up upon the stock, all of which had come from the National Agency Company as you have told me, was the total available property of the Union Life for carrying on its operations? A.—Yes, outside of the premium paid in.

Q.—I am coming to that. I am saying that when you commenced business that was all you had? A.—We had the premium simultaneously with the capital.

Q.—The five per cent? A.—Yes.

Q.—Did everybody pay the five per cent? A.—Yes.

Q.—Everybody being the National Agency. Whereabouts in this statement is that premium shown? A.—There, premium on capital stock.

Q.—No, that is not it? A.—That is the second year, though. Premium on capital stock, \$70,000.

Q.—How did it come to be \$70,000? A.—That was the amount paid in by the 31st of December as premium. There was another call of 2 per cent. made.

Q.—Were there two calls, of 5 and 2? A.—There must have been one of 5 and one of some larger amount, of which at least two per cent. was paid in before the end of the year.

Q.—There was no call upon the capital stock as such? A.—No.

Q.—Any call that was made upon the National Agency Company in respect of this stock in the Union was in the nature of premium? A.—After the first \$100,000.

Q.—Now that \$100,000 is shown there, and you point me to this \$70,000 shown in the income? A.—Yes.

Q.—As premium on the capital stock. Now I want you to point me in the minutes, perhaps you can find it for me more quickly? A.—As to that premium?

Q.—Yes? A.—This is the first one.

Q.—The date of that? A.—I think this would cover it.

Q.—This is by-law 16a, that the Directors may make calls from time to time on stock premium account; should any part of such premium remain unpaid either in connection with or free from any call or calls upon the unpaid subscribed stock of the company. Provided, however, that no separate or joint call as herein contemplated shall exceed 10 per cent. upon the amount of the subscribed

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stock as the same may then be from time to time. And provided that the Directors may in their discretion accept from the shareholders voluntary payments. Pages 13 and 14 of the Board minute book of the Union Life. That of course does not indicate a call; it just gives authority to make a call? A.—Yes.

Q.—Do you think there was ever anything more than what you have pointed me to on the other page on the 4th of June, which was apparently a subscription of a portion of the stock which the National Agency afterwards took at the premium of 5 per cent.; don't you think it just worked itself out that when the whole stock was taken by the National Agency that the five per cent. premium was applied to that, so to speak mechanically, automatically, without any special resolution? A.—No, there was a resolution, I think, for every call on premium.

Q.—I tell you that because on the 29th of December, 1902, there is a clear direction for the call of two per cent? A.—Yes, I think that was made in every case.

MR. SYMONS: I think you will find the original agreement between the two companies provides for the first payment of five per cent.

MR. SHEPLEY: That is quite true, but at that time the resolution is one thing and the minutes another. The resolution would assist the theory that it was done automatically. "That a supplementary call on the 29th of December on premium account of 2 per cent. on the capital stock of this company, being equal to 20 per cent. of the paidup capital, be and is hereby made, to be payable immediately." That was carried? A.—That would account for the \$70,000.

Q.—That is at pages 9 and 10 of the Executive Minute book of the Union Life. Now we will come back to this statement, which indicates that the shareholders of the Union Life—the shareholders being the National Agency Company—had put up \$100,000, being 10 per cent. upon the stock and \$70,000, being a premium of 7 per cent. upon the stock? A.—Correct.

Q.—That is what the account would indicate. Now can you remember in what shape that money or any of it came into the actual possession of the Union Life? A.—It was paid in by cheque.

Q.—By cheque of what? A.—The National Agency Company, I think.

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Q.—And of course this \$20,000 at least was not paid in until just the end of the year? A.—Yes.

Q.—Would you say the same with regard to the \$50,000? A.—Yes, I think so. I think it would probably be included in the original payment in connection with the capital.

Q.—Then you say it was different? A.—It might have all been together. I don't remember the circumstances now. It was probably altogether in connection with the \$100,000 payment on capital account.

Q.—That you are not clear about? A.—No, I am not.

Q.—Is there any way in which you could ascertain that? Could you if you had your cash book here? A.—I should think so.

Q.—Is your cash book here? A.—I think it is. It was sent for.

Q.—Have your cashier come here with it if he will be so good? A.—He is coming.

Q.—Now this is the cash book of the Union Life for 1902? A.—Yes.

MR. CARRIE (Cashier): There was a payment of \$25,000 paid on the 5th of June, and also a payment on the 9th of June, \$10,000. On the 23rd a payment of \$7,000, and on the 24th a payment of \$7,500, making a total of \$62,501.75.

Q.—That is ten per cent upon the 6,250 shares of stock that we saw yesterday? A.—Yes.

MR. CARRIE: That was divided in the capital account and into the premium on that capital.

Q.—That was divided to capital and premium? A.—I think that was all on capital.

Q.—Here it is manifestly; \$20,833.34, was put to premium, and \$41,666 to stock? A.—Yes.

Q.—That is, one-third of it was put to the premium and two-thirds to the stock. That would not seem to be quite proper, would it Mr. Evans, in view of the fact that your charter required ten per cent to be paid up absolutely? A.—Well, but that was in June, and there have been some subsequent payments.

Q.—We will get to the subsequent payments then. A.—There is one on August 30th.

Q.—August 30th, National Agency Company, stock, \$5,000 paid, of which in the same way one-third was put to premium and two-thirds to

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stock. A.—There should have been something before that should there not?

MR. CARRIE: That might just have been the division at the time. If we turn up the premium account in the ledger.

Q.—I would rather build up from this if we can. It must be in the cash book if there was any cash book passed you know. Do you find any more payments on account of stock than the original \$62,500 on the \$5,000 in August? A.—I think you will find that in the journal.

Q.—Do you find it in the cash book?

MR. CARRIE: Not in the cash book; you find the \$62,000 in the cash, and the other in the journal.

Q.—The \$62,000 and the \$5,000 both appear in the cash book. Then does the money received on the two per cent. call appear in the cash book?

MR. CARRIE: There are some erasures there in the stock and premium account. I think that was put through as a matter of bookkeeping to adjust and work with the journal entries made in June, 1902, the amount credited from the Union Life to the National Agency in the transfer.

Q.—Not finding any cash in this cash book paid by the National Agency to the Union Life Company during the year 1902, beyond the original \$62,500, and a subsequent \$5,000, was there any actual cash paid? A.—There must have been.

Q.—How could you have cash paid and not appearing in your cash book?

MR. CARRIE: Here is another \$2,000 here.

Q.—That is interest on Sault bonds? A.—It must have been put through the journal. I don't know. I don't keep the books.

Q.—Then you are not a bookkeeper and do not know how the books are kept? A.—No.

Q.—You understand, like every business man, the object of a cash book? A.—Certainly.

Q.—And if any money was received it ought to appear in the cash book? A.—Yes.

Q.—And if you do not find it in the cash book, prima facie it was not received? A.—That might be the inference, but I don't think it would be correct in this case.

Q.—So much for the cash book entry. We have, then, so far as that book is concerned, \$67,500 passing out of that \$170,000 and no more. Then if you were carrying on your transactions normally, what other book would throw light upon the passing of cash, the bank book? A.—I should think so.

Q.—Is that here? A.—I don't know.

MR. CARRIE: No, the bank book is not here.

Q.—Then just make a note of the bank book. We must have that.

Q.—Now if you have the ledger here we will look at the ledger, and you may as well bring the journal too; we will see what the entries are in those books. Is there anything in the ledger to help us at all? What is this first page?

MR. CARRIE: That is the allotment of stock.

Q.—This, then, is the journal? Show me entries corresponding to the cash book in this.

MR. CARRIE: Here are a number.

MR. SHEPLEY: I think it would be convenient that this gentleman should be sworn contemporaneously, because I am anxious that Mr. Evans should have his assistance, but it is better that he should be on oath. It probably will expedite matters very much.

JUDGE MAC TAVISH: There can be no objection to the witnesses giving their evidence contemporaneously.

WILLIAM H. CARRIE, sworn.

(Mr. Carrie answers until a change is indicated.)

MR. SHEPLEY: The first thing to be observed seems to be that there are no June entries in this journal at all; you commence with the 19th of July. Is there any entry on page 3 where the entries begin, with regard to payments by the National Agency on account of a capital stock? A.—There is one here on account of premium.

Q.—\$16,670.83? A.—Yes.

Q.—Does that appear in the cash book? A.—The journal entry, no.

Q.—Now of course that item \$16,670.83 in the journal, "Sundries to premium" is one-third of \$50,000? A.—That is right.

Q.—And that indicates in the journal that premiums to that extent were received. What are these other matters above? A.—Those are the

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credits going forward to the National Agency holding and the Directors individually. To the capital account and the Directors individually.

Q.—Is that the 10 per cent. on their holdings of stock? A.—That is ten per cent. of the holdings of the individuals, yes. And a balance in adjustment to the credit of the National Agency capital account.

Q.—If I understand the significance of these entries it means that 10 per cent. or \$250 was being alleged to have been received from each of these individual Directors?

MR. EVANS: Yes, it was received

Q.—We will come to that in a moment. I am speaking of this entry, this entry alleges that it was received and it alleges that besides that, of including that rather \$50,000 was received altogether from the National Agency?

(Mr. Evans answers until a change is indicated.)

Q.—And that is adjusted \$16,000, one-third of it to premiums and two-thirds of it to payments upon the stock? A.—I think so, yes, that is right.

Q.—Then when we add to that, so as to have it in its proper order, that that entry does not appear anywhere in the cash book, we seem to have exhausted that for the present. I understand you to say that this money was in fact paid, do you Mr. Evans? A.—Yes.

Q.—If it was paid it will appear in your bank books of course? A.—Yes.

Q.—Is there any other entry in this journal bearing upon this subject? Will you please look, Mr. Carrie, and see if there is any other entry during 1902 is all I am concerned with at the moment, bearing upon this subject of payment, either on account of stock, or premiums upon stock.

(Mr. Carrie answers until a change is indicated.) A.—Yes, there is an item here, amount of bills receivable.

Q.—The item is on page 4. What is the date of that? A.—It is not dated there, but we have a date in the ledger. It is dated probably following on after July.

Q.—“Amount in bills receivable to be credited to capital account, this amount having been credited to the shareholders from bills receivable book National Agency Company, \$21,-658.33.” Now what does that indicate? A.—That is a note given by the National Agency Company to the Union Life; a promise to pay and accepted.

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Q.—Let us have the bills receivable book if it is here? A.—No, it is not here.

Q.—Make a note of that please. Both bill books. Were you in the employ of the company at that time Mr. Carrie? A.—Yes sir.

Q.—Are these your entries? A.—They are.

Q.—Where did you get instructions to make these entries? A.—I got them from the executive. Possibly from the Secretary of the company, Mr. Evans.

Q.—Do you remember? A.—No, I have no recollection of getting the instructions.

Q.—Now I call your attention to this \$31,591.67. That seems to be the same amount that is on page 3, to the National Agency Company. Is it the same amount? A.—That is the same amount?

Q.—Intended to be the same thing? A.—Yes.

Q.—Well then, the seven \$250's appearing on page 4, are they the same seven \$250's that appear on page 3? A.—Yes.

Q.—Were they paid in connection with this \$21,658.33? There is no corresponding entry in respect of the individual shareholder? A.—No.

Q.—Now Mr. Carrie, I ask you, did you ever see that money, \$21,658.33 except in the shape of the bill receivable? A.—In no other shape. It was afterwards paid off from my recollection.

Q.—You never saw it in any other shape? A.—No.

Q.—Is there any other entry in 1902 relating to this subject? A.—Not from those pages; I cannot see any.

Q.—Is there in December? A.—No, these are just journal entries adjusting the accounts at the end of the year.

Q.—Now the ledger? A.—The stock ledger is not here. Mr. Glover has that at the office.

Q.—Mr. Glover is working at that down there. Now we shall perhaps want you again. You need not go very far away Mr. Carrie. I will come back to Mr. Evans again. Taking again your return to the Government we find a statement of assets.

(Mr. Evans answers until a change is indicated.) A.—Yes.

Q.—You have loans secured by bonds, stock, or other marketable collaterals

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\$5,600. Then you have certain other bonds amounting to \$59,653.43? A.—Yes.

Q.—Then you have, cash in the banks, \$27,164; bills receivable, \$2,831.14. I do not see the bills receivable that appear in your journal there? A.—I don't know what that would be.

Q.—Is that the place where you would find it? A.—I should think so.

Q.—If it were in existence? A.—Yes.

Q.—What bills receivable are included in this \$2,831.14? A.—I couldn't tell you.

Q.—Is there any way we can find that out? A.—It ought to be in the journal.

Q.—If it is, probably Mr. Carrie can find it for me. Mr. Carrie, if you will come here again and find me in the year 1902 what makes up this item in the Government statement, bills receivable, \$2,831.14?

MR. CARRIE: May I take the ledger? (Turns to an entry.)

Q.—That seems to have been a demand note of the National Agency Company, \$2,831.14. Now what was that for? Where can you find that? Is there any book here that will enable you to analyze that and tell us what that was for?

MR. CARRIE: The National Agency gave a note and assumed all the expenditures in regard to the outgo of printing and supplies.

Q.—Then that is for printing and supplies?

MR. CARRIE: Yes.

Q.—That is something which the National Agency Company was to pay you for, printing and supplies, and has nothing to do with capital stock?

MR. CARRIE: Nothing to do with capital stock.

Q.—Then the agents' ledger balances we need not bother about. The cash with the North American Life, that is the reserve?

MR. EVANS: Yes.

Q.—That makes a total of ledger assets \$111 000 odd, to which are added office fixtures and certain interest due and accruing, and outstanding and deferred premiums, bringing the total up to \$118,475? A.—Yes.

Q.—Now that is a statement of the assets of the company. Now your liabilities; \$11,171 seems to be the reserve? A.—Yes.

Q.—That is in addition to your asset of reserve up here? A.—No,

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not in addition, that is the reserve of the business.

Q.—On the whole of the business? A.—Yes.

Q.—Against that you put as an asset the \$11,000 difference? A.—Yes.

Q.—\$11,078. Then, "due on account of general expenses," what is that? A.—Oh, bills unpaid at the end of the year, I suppose. I don't remember what they were.

Q.—Can you show me that from the journal, Mr. Carrie?

MR. EVANS: Those items appear in there yet, I think.

MR. CARRIE: Outstanding accounts do not appear in the books.

Q.—Not as a single item?

MR. EVANS: No.

Q.—The total liabilities are put at \$113,544. Those two items added to that amount, and that taken from \$118,475, leaves a surplus on policyholders' account of \$105,469.56? A.—That is correct.

Q.—And beneath that you have put capital stock paid up, \$100,000, the result being that the company appears to be \$5,469.56 to the good in assets over liabilities, the capital stock being entirely unimpaired? A.—Yes.

Q.—Then we take the account for income, and expenditure. First you have the cash received for premiums, that is for insuring people? A.—Yes.

Q.—Then interest and dividends, \$1,640.56. Is that in respect of your investments? A.—Yes.

Q.—Then we have the item, premium on capital stock, \$70,000? A.—Yes.

Q.—That is the premium of which you have been telling me, upon your own stock? A.—Yes.

Q.—As to which we have exhausted the cash book and journal only; making a total of \$84,769, to which is added the ten per cent. on the capital stock, \$100,000, making a total of \$184,769.99? A.—Yes.

Q.—Then you have paid out \$73,709.31 altogether? A.—Yes.

Q.—Of which \$61,944 was in commissions, salaries, and other expenses of officials? A.—Yes.

Q.—Would that include the commissions that you put to the National Agency? A.—Yes.

Q.—Now, of course it must be manifest, must it not, that if you exclude that \$70,000 from consideration, or if you exclude all of it except the

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\$5,000 and the \$62,500, which are found in the cash book, if you exclude all of it except those two sums from that, and the \$100,000 of capital stock paid up, that there was no profit upon the year's business? A.—There certainly would not be. There would not be expected to be.

Q.—And your capital would be very considerably impaired? A.—Yes.

Q.—Can you remember, Mr. Evans, because it is a matter that one would think you would remember about, in what shape on the 31st of December any application from the National Agency to you on account of their payment on calls or payment on premiums, what shape any such application was in? A.—No, I cannot.

Q.—Even generally? A.—No. Everything was paid up according to the returns.

Q.—According to the returns everything was paid up, but I am asking you whether you can say in what shape? A.—I don't think I quite understand your question.

Q.—You do not think you understand the question? A.—No.

Q.—In what shape was any obligation which the National Agency Company was under to you in respect of their calls on stock, or premium on stock on the 31st of December, 1902? A.—They were all paid up.

Q.—That is it had all been put into the shape of money? A.—Yes.

Q.—And that can be made to appear I suppose when we get your bank books? A.—I should think so. It was all gone over by Mr. Blackadar and Mr. Fitzgerald and they were apparently satisfied.

Q.—Then I want to ask you about the policies for that year, so as not to go back to this again. How many new policies according to the Government return? A.—7,984.

Q.—What was the total number of policies in force at the beginning of the Union Life's operations? A.—None.

Q.—In that 7,984 is there included in that what you took over from the North American? A.—No. 5,806 is that.

Q.—Then that would be perhaps what you had to begin with, the 5,806? A.—Yes.

Q.—You got 7,984 during the year? A.—Yes.

Q.—And what was in force at the end of the year? A.—10,367.

Q.—Now we come to 1903, you had increased your securities somewhat

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among the assets? A.—No doubt, I don't remember now.

Q.—You had added Dominion Permanent Loan Company's stock \$4,500, and Birkbeck investment stock \$1,000, and Colonial investment \$500? A.—Yes.

Q.—Raising the total to \$65,608? A.—Yes.

Q.—Then you had bills receivable \$6,025? A.—Yes.

Q.—Will you please tell me what that was? A.—Can you get that Mr. Carrie?

(Mr. Carrie answers until a change is indicated?) A.—What year is that, 1904?

Q.—At the end of 1903. What is this, \$525, organization expenses? A.—Yes.

Q.—That means what? A.—Travelling expenses.

MR. EVANS: Legal expenses in getting the charter.

Q.—Whose bill was it you had in the bills receivable?

MR. EVANS: The Union Life.

MR. CARRIE: On December 31st the National Agency had given the Union Life a note for \$9,500. They paid off \$4,000, and left a balance of \$5,500.

Q.—Let us see if you really mean that? A.—On the 31st of December, 1903, the National Agency Company had given a demand note for \$9,500? A.—That is right.

Q.—What was that on account of? A.—Capital stock account.

Q.—And of that \$4,000 was paid on the same date, because the dates are all the 31st of December? A.—I think that note was given in 1902. I will look at the journal.

Q.—What do you say, can you explain those items? A.—If I had my stock ledger here I could possibly more readily, but the ledger account is not in detail, it is not given fully.

Q.—At all events there are three items at page 180 of this Union Life Ledger, all dated the 31st December, 1903, one on the debit side for \$9,500, National Agency demand, and two on the other side, both of the same date, National Agency stock, \$5,000, balance, \$5,500. And that \$5,500 you say is part of this \$6,025?

MR. EVANS: Yes, I think so.

Q.—Then you say the other is the \$525 shown at page 100 under the name organization expenses? A.—Yes.

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Q.—Now whose bill receivable did you hold for that \$525?

MR. EVANS: I think that was included in the National Agency note wasn't it?

MR. CARRIE: Those reports made to the Department are not made in as full detail; the figures are rather grouped.

Q.—I understand the grouping, you have explained that, but I have come to this analysis, and I find \$545, and I want to know whose bill receivable that was, who had given you a promissory note for \$525.

(Mr. Carrie continues to answer.) A.—It may have been reported under bills receivable, but actually there might not have been any note given. It may have been bulked with the other item to abbreviate the statement.

Q.—In what sense was it an asset, whether it was a note or not? A.—Because they were carrying it as an organization expense, and they were entitled to do so.

Q.—Was it money paid out by the Union Life? A.—Yes.

Q.—Was the Union Life entitled to get it back from anybody else? A.—Under the provisions and customs of the Department they are entitled to carry it as an asset, and they carried it in their assets.

Q.—Are they entitled to ever get it back from anybody else? A.—They would be.

Q.—From whom? A.—From the value of the business.

Q.—And in that sense you say it is an asset. Very well, we will pass on from that. So far as you can tell, there was no promissory note or bill receivable about it? A.—No. I might say, those were all gone into by the Department at the time.

Q.—I dare say. Then we have the cash with the North American Life, \$11,078.63. That is the reserve again?

MR. EVANS: Yes.

Q.—Then what is this: North American, interest account, \$728.70?

(Mr. Evans continues to answer.) A.—That would be interest due on that reserve which they credited to us and not paid over in cash.

Q.—Then we have interest, office furniture, deferred premiums, bringing up the total of assets to \$126,018.97? A.—Yes, that is right.

Q.—Then your liabilities are shown as the reserve, \$22,850; due on account of general expenses, a small sum, premiums paid in advance, mak-

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ing the total liabilities \$23,593.55. That leaves a surplus of \$102,425.42? A.—Yes.

Q.—Of which \$100,000 is the capital stock? A.—Yes.

Q.—Then we come again to income. Cash received for premiums, \$68,000 odd. For interest or dividends, \$4,264.88. Premium on capital stock, \$100,000? A.—Yes.

Q.—I want to see the entries with regard to that. First the cash book entries.

(Mr. Carrie answers until a change is indicated.) A.—Here is the first item appearing on May the 9th, \$5,000. On the 23rd, \$2,000. National Agency again on the 6th of June, \$6,000. That is on page 40.

Then June 27th, folio 42, \$2,000.

July 11th, folio 44, \$10,000, in two sums of \$5,000 each.

On July 31st, folio 46, \$5,000.

August 31st, folio 50, \$5,000.

September 31st, folio 54, \$5,000.

October 31st, folio 58, \$10,000.

Q.—That seems to be premium? A.—Premium.

November 28th, folio 62, \$4,000.

December 12th, folio 64, \$2,000.

December 19th, folio 64, \$4,000.

December 31st, folio 66, \$30,500.

Q.—That is the last entry. Now, Mr. Evans, you say that a large sum of money was handed over according to the cash book on the 31st of December?

MR. EVANS: Yes.

Q.—Can you remember in what shape that was handed over?

MR. EVANS: No, I don't. Either cheque or securities, I am not sure which.

Q.—You say that \$9,500 note shown at page 180 of the ledger of the Union Life is the difference between the two?

MR. CARRIE: That is right.

Q.—I was calling your attention to the fact that the great bulk of that \$9,500 and the last two sums there, making altogether \$40,000, including this note, were handed to you on the 31st of December. Supposing you had not got that \$30,000 on the 30th of December, how would that income and expenditure account have shown?

MR. EVANS: The income would have been \$40,000 less.

Q.—And how would it have compared with the expenditure?

(Mr. Evans continues to answer.) A.—Approximately the same. The expenditure would have been the same.

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Q.—The income would have been \$132,000 and the expenditure \$168,000? A.—Yes.

Q.—Now I suppose when we get your bank books we can see whether or not that money came there to stay or went back after the 31st of December? A.—Yes.

MR. CARRIE: The cash book will show that.

MR. EVANS: It did not go back.

Q.—Very well, that is satisfactory for the present? A.—We needed it.

Q.—You do not remember the shape in which it came? It could not have been in the shape of securities unless this Dominion Permanent, there are only \$6,000 of new securities there? A.—Likely most of it was cash.

Q.—Now contemporaneously with this you were in the National Agency from time to time making calls upon that stock? A.—Yes.

Q.—Those were not calls by way of payment up of the stock? A.—Yes, stock and premium.

Q.—Stock and premium where it was issued at a premium, and it was in that way, of course, that the money was being raised to put into the Union Life? A.—Yes.

Q.—By way of premium upon the stock of that company? A.—Yes.

Q.—The minutes of the National Agency, of course, will show how that was done there? A.—Yes.

Q.—Those are being examined since we have been permitted to see them, and we will have those arranged later on. Now what about your business during that year? A.—It is in the returns here.

Q.—Policies in force at the beginning of the year, 10,367. New policies over \$33,000? A.—Yes.

Q.—Policies in force at the end of the year, 24,000? A.—Yes.

Q.—Lapses, 19,382? A.—Yes.

Q.—I understand that in this industrial business the proportion of lapses is always high? A.—Yes, that is phenomenally low there.

Q.—We will have some other companies to compare it with later, but you think it is phenomenally low? A.—Yes.

Q.—During the year 1904 you made considerable additions to your investments? A.—Yes.

Q.—You increased your holding of Dominion Permanent? A.—Yes.

Q.—You increased your holding very largely in Colonial Investment? A.—Yes.

Q.—You then held \$29,640 of that? A.—Yes.

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Q.—Then you had Dominion Permanent debentures, Electric Development Company bonds, Peoples Building and Loan Company stock, Trusts and Guarantee stock, Canadian Savings and Loan stock, Western Insurance, Reliance stock and Traders Bank stock a total of \$109,401.80 according to the ledger value? A.—Yes.

Q.—Then the North American Life Insurance Company reserve had risen to \$14,725? A.—Yes.

Q.—And there was a small sum due for interest there? Your office furniture and fixtures had grown to \$8,220? A.—Yes.

Q.—And you had a total of assets of \$164,843.51? A.—Yes.

Q.—Then your liabilities as before consisted principally of reserve? A.—Yes.

Q.—In the assets and bills receivable are \$5,095.85 at the end of '04. Can you turn that up Mr. Carrie? You do not find any bills receivable at page 180 of your ledger at all for that do you?

MR. CARRIE: No I do not.

Q.—You do not find that at all events?

MR. EVANS: Not yet.

Q.—Now your surplus of assets over liabilities amounted to \$104,609.75? A.—Yes.

Q.—Of which \$100,000 was capital? A.—Yes.

Q.—Apart from the capital the surplus had not much increased in the three years' operations? A.—No.

Q.—Now your income is first, cash received from insurance premiums, \$123,255? A.—Yes.

Q.—Then you had interest on your investments of \$3,000 odd and premium on capital stock of \$115,000? A.—Yes.

Q.—That similarly was received from the National Agency Company on account of premiums on its calls? A.—Yes.

Q.—Then the cash book please for that \$115,000? A.—1904, Mr. Carrie.

MR. CARRIE: (Answers until a change is indicated).

April 4th, folio 82, \$1,000.

April 4th, folio 82, \$1,000.

May 2nd, folio 86, \$1,000.

May 16th, folio 88, \$1,000.

May 23rd, folio 88, \$2,000.

May 30th, folio 90, \$3,000.

June 13th, folio 92, \$1,000.

June 20th, folio 92, \$1,000.

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June 27th, folio 94, \$6,000.
 July 4th, folio 96, \$6,000.
 August 1st, folio 100, \$2,000.
 September 5th, folio 106, \$2,000.
 September 19th, folio 108, \$3,000.
 October 3rd, folio 110, \$2,000.
 You might star that.

Q.—It is marked here "Credit bills receivable?" A.—Yes. October 17th, folio 112, \$3,500.

Q.—Star that also. That is marked herein pencil "Credit bills receivable."
 A.—November 21st, folio 118, \$2,000.

December 5th, folio 120, \$2,000.
 December 12th, folio 120, \$2,000.
 December 26th, folio 122, \$68,000.

Q.—How much do those amount to?
 If the pencil memoranda are accurate you cannot have credit for the cash and the bills receivable too. Find out whether that is a double entry or not.

MR. TILLEY: I make the total \$104,000 leaving out the starred items.

MR. SHEPLEY: You say there was a note again that year for the \$9,500?
 A.—That is right.

Q.—You think the figure 1905 over that is a clerical error, that it ought to be 1904? A.—Yes.

Q.—That note being shown at page 180 of the ledger? A.—Yes. It was retired by transfer of stock, Colonial, Dominion Permanent and Traders Bank. The note was partially retired by this journal entry transferring from the National Agency to the Union Life these stocks I have mentioned.

Q.—That amounts to \$5,293? A.—Yes.

Q.—Out of the \$9,500? A.—Yes.

Q.—And on the 10th of April? A.—Folio 14, this balance was paid in cash, \$4,207, retiring the note.

Q.—Will that appear in the cash book, ought it to? A.—The cash book was changed at that time.

Q.—Is the other cash book here? A.—No.

Q.—We will have that at 2 o'clock please, make a note of that, the following cash book. Before I leave it, turn back to 1903 in the cash book and see if you can find any cash there? A.—We won't there. We could not.

Q.—I think we did that and it was not found. That still awaits explanation? A.—Oh no, this item has been passed has it not?

Q.—\$9,500. A.—\$9,500 was the balance.

Q.—And the items against that are stock \$4,000 and balance \$5,500? A.—Yes, then the balance was carried forward and retired in those two pay-

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ments that we just starred there a moment ago.

Q.—In the cash book that \$4,000 would appear? A.—In the journal.

Q.—It does not appear in the cash book? A.—No, it is a journal entry.

Q.—When the promissory note for \$9,500 was retired in whole or in part, the money paid in retiring it would come into the cash book? A.—Here is where it comes in. Here is the balance carried forward.

Q.—But the \$4,000 is what is troubling me. A.—Here is the \$4,000.

Q.—It was in securities, stock accounts and bills receivable. You got \$4,000 worth of securities apparently, or what passed for \$4,000 and the note was renewed for \$5,500 and there are two payments of cash which have been starred, making \$5,500. Now were those starred entries in the cash book? A.—Yes.

Q.—Or the entries which you said the starred entries replaced? A.—No, those two entries here I think.

Q.—Get the cash book and let us get that right? A.—We deducted the starred items and that balances the account for that year.

Q.—There are the starred items, the ones that have in pencil "Bills receivable." They amount together to? A.—\$5,500.

Q.—They were not on account of this \$115,000? A.—No.

Q.—But in payment of the note of the year before? A.—That is right, in payment or retiring that note. They were applied to that.

Q.—So far the cash book shows you are still unable to show the whole \$115,000? A.—With the exception of \$95,000, of which \$5,293 was a credit.

Q.—Wait a moment. Unless you take in those two items that you have starred and which were in payment of an old note of the preceding year, you cannot get \$104,500?

MR. TILLEY: \$109,500 including the starred items.

MR. SHEPLEY: Excluding them it is \$104,500?

MR. TILLEY: \$104,000 even, without the starred items. The starred items are \$5,500.

MR. SHEPLEY: We will have that checked afterwards. Then going on with this Government return for 1904, Mr. Evans. Your expenditure on commissions, salaries and other expenses that year was \$157,000. (Mr. Evans

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answers until a change is indicated.)
A.—Yes.

Q.—Besides that you had very considerable advertising, printing and supplies charges? A.—Yes.

Q.—Bringing your total expenditure for the year up to \$206,174.79? A.—Yes.

Q.—Then coming to the policies again, you had in force at the beginning of the year—we will take the industrial branch because the other is trifling in amount by comparison, you had at the beginning of the year, 24,190 policies in force? A.—Yes sir.

Q.—During the year you took \$29,120? A.—Yes.

A.—And at the end of the year you had 29,805? A.—Yes.

Q.—What do you say as to that, is that a heavy proportion of lapses? A.—Yes, that was the heaviest year we ever had.

Q.—You would say it was a heavy proportion? A.—Not unusually heavy for industrial insurances. It was heavy for us.

Q.—And I suppose it is right to say that the value of what you call your weekly debit is partly at all events dependent on the persistence of your industrial insurance? A.—Yes that is substantially correct.

Q.—Then this return also shows the ages of the persons insured below 10 years of age? A.—Yes, that is required by the form..

Q.—A very substantial portion in number of your policies was in respect of children of tender years? A.—Yes.

Q.—This is your actual return for 1905? A.—Yes.

Q.—Your securities have not been very active so far as getting rid of them is concerned? A.—No, we have made no attempt to sell them.

Q.—And I see in respect of some of the securities, they have increased in amount? A.—Yes.

Q.—And substantially you have taken all your securities from the National Agency Company? A.—Yes, a very large number of them.

Q.—At such prices as the Board of that Company and the Board of your Company agreed upon? A.—Yes.

Q.—The Boards being coincident. A.—The prices that the National Agency Company paid for them in nearly all cases, with very slight additions. In some cases we took them at lower valuations, you will find from our returns.

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Q.—Then your securities, ledger value, amounted to \$169,328? A.—Yes.

Q.—Cash in the bank \$2,850.27? A.—Yes.

Q.—Then the reserve in the hands of the North American Life, \$18,735? A.—Yes.

Q.—Bills receivable \$21,586? A.—Yes.

Q.—Have you anything here that will show me that, Mr. Carrie? There does not seem to be any entry in your ledger about those bills receivable but we are going to have the bill books here themselves.

MR. CARRIE: That is cash in bank with a detail is it not?

Q.—I thought it was bills receivable.

MR. CARRIE: No, it is "Cash in bank with detail."

MR. EVANS: This is a consolidation of those two items, cash in banks and on hand.

Q.—It is not opposite that. I dare say I should have noticed that. Then bills receivable is intended to be left blank? A.—Yes, there were no bills receivable.

Q.—Then the old furniture comes in again and then we have your income account and we come to the liabilities. Your reserve has got up to \$108,907? A.—Yes.

Q.—There are certain small claims that we need not bother about. Your general expenses \$5,602.17? A.—Yes.

Q.—That is larger than it was before; that is money that you owned at the end of 1905 in a different way? A.—Yes.

Q.—And what is this? A.—I think those were some agents' balances and the sum that was due the North American Life on account of the change in the policies that had been converted during the year 1905. They were entitled to a certain portion of the reserve and we provided for that in our liabilities although it had not been actually settled. I think about \$4,000 of it was that any way.

Q.—That can be found out? A.—Yes.

Q.—Then your surplus is how much? A.—\$112,000.

Q.—Of which \$100,000 is capital of course as before? A.—Capital.

Q.—Then your income and expenditure is shown at page 5 of this return. Premiums \$168,196? A.—Yes.

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Q.—Dividends and interest \$7,455.92. And premiums on capital \$140,000? A.—Yes.

Q.—That we will take from you, Mr. Carrie, in the cash book?

MR. CARRIE: That cash book is not here.

Q.—We will have that at 2 o'clock please. That similarly of course was all in respect of the money received from the National Agency? (Mr. Evans continuing.) A.—Yes.

Q.—Then your expenditure. During the year you paid out to policyholders \$26,633? A.—Yes.

Q.—For commissions, salaries and other expenses of officials \$183,597.55? A.—Yes.

Q.—The details of that are shown on the other side. Head Office salaries are \$27,906.76? A.—Yes, that includes 40 employees at the head office.

Q.—Travelling expenses \$6,078; and commissions \$147,000. Then you have \$147,218, that of course includes what you paid to the National Agency? A.—Yes.

Q.—Then you have very considerable general expenses, telephone, rent, expenses \$7,096? A.—Yes, we have 30 branch offices. That includes all the rents of the branch offices.

Q.—You have \$10,165 of advertising, printing and supplies? A.—Yes.

Q.—And the medical and legal fees have gone up to \$11,085? A.—Yes, that covers the examination of 30,000 policies.

Q.—What is your balance between income and expenditure; where does that appear? A.—This is it.

Q.—The difference is between \$314,000 and \$246,000? A.—Yes.

Q.—That is the difference between your income and expenditure, the income including the \$140,000 of premium? A.—Yes.

Q.—Have you been receiving any premiums this year? A.—No.

Q.—On the capital stock? A.—Not yet.

Q.—The National Agency has made some arrangement for further issue of stock? A.—Yes.

Q.—To what extent? A.—I think the capital was increased about seven months ago to \$750,000.

Q.—That is from the \$500,000 which you were authorized by your second Charter to issue? A.—Yes.

Q.—Then has that been issued yet or any part of it? A.—No.

Q.—Been subscribed for? A.—No, we have not offered any of the stock for sale for quite a while.

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Q.—Have you forecast your experience from the Union Life standpoint for this year? A.—Yes.

Q.—Are you expecting to get premiums still on your stock? A.—Yes.

Q.—From the National Agency? A.—Yes.

Q.—That is out of this \$250,000? A.—Yes.

Q.—That is the purpose for which authority to make that issue was obtained? A.—Yes, no doubt.

Q.—So that you could sell that stock on the market, get more money from the shareholders of the National Agency, and pay it over as premiums upon the stock in the Union Life? A.—Either that or issue and sell debentures. It was not determined which we would do. It was generally thought we would obtain the money from the National Agency Company.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., May 8th, 1906.

Examination of Mr. Evans continued.

MR. TILLEY: You were to bring the cash book showing the payments during 1905? A.—Mr. Carrie is bringing those.

Q.—Was there anything you were to bring? A.—No, I think not.

Q.—The bank book, the bills payable and bills-receivable books? A.—He is getting all of them, I understand.

Q.—That is the return that your company put in under the head of External relations? A.—Yes.

Statement of external relations marked as Exhibit 102.

Q.—It commences with the year 1902 and indicates all the investments that the Company, the Union Life held in 1902? A.—Yes.

Q.—And the source from which they came? A.—Yes.

Q.—Who the vendor was or who the broker was through whom you bought? A.—Yes.

Q.—It commences with the City of Winnipeg debentures, par value \$25,000 and you purchased those from William C. Brent in June, 1902. The town of Sault Ste. Marie, debentures, \$20,000; those from the National Agency—both of those securities, the price at which you bought them is not shown in this statement (Ex. 102)? A.—They ought to be; my recollection is that is the price we paid for them.

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Q.—The blank is there? A.—We made a return to the Government, I think, on that some short time ago, if I remember rightly.

Q.—You will be able to get the explanation of that? A.—Yes, I will make a note of it.

Q.—The town of Port Arthur debentures, amounting to \$6,000, you bought from Brent, the City of Nelson debentures, Quebec Railway Light & Power Company bonds, and the cash value of a policy in the North American Life, you got these all from the National Agency Company? A.—I do not remember; whatever it shows there.

Q.—It indicates that here? A.—Yes.

Q.—Then in 1903 you got some additional Dominion Permanent and Loan Company stock, some Canadian Birkbeck investment and Loan Company stock, and Colonial Investment stock, all from the National Agency? A.—Yes.

Q.—You received all of these stocks on the 31st December? A.—I believe so.

Q.—In the year 1904 there is a further list of stocks and debentures and bonds, all received from the National Agency Company, and all received on December 31st except a small lot of Canadian Savings & Loan Company's stock? A.—Yes.

Q.—In 1905 again the same thing happens, a lot of debentures, stocks and bonds received from the National Agency Company, in each case, and all received in the month of December except a small lot of Standard Loan Company's debentures? A.—Yes sir.

Q.—Which were received on November 30th? A.—Yes.

Q.—When did the National Agency Company first commence paying dividends? A.—I think it was in March or April, 1902, it may have been May; it was in the spring some time.

Q.—What rate of dividend was then paid? A.—Five per cent. for the current half year.

Q.—Being at the rate of ten per cent. for the whole year? A.—Yes.

Q.—Then when was the next dividend paid? A.—I cannot tell you exactly, I think about 6 months after that, I am not positive as to the date.

Q.—Is it right to say that from the time that the National Agency Company was formed that a dividend of ten per cent. has been paid on its stock? A.—No, not from the time it was formed, but probably 8 months after.

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(W. H. Carrie, ex'd)

Q.—So that for a period of about 8 months no dividend was paid at all? A.—That is my recollection.

Q.—And then from that time on a dividend of ten per cent. has been paid, has any bonus been paid in addition to that dividend? A.—No.

Q.—So that there has been the straight uniform dividend from the time you commenced to pay it? A.—The last dividend was 7 per cent.

Q.—When was that reduced from 10 to 7? A.—I think that was in October, I am not sure as to the date.

Q.—Of what year? A.—Last year, I am not sure, it may have been—

Q.—Mr. Symons says it was the last dividend that was declared in April of this year? A.—Yes.

Q.—You then reduced it from 10 per cent to at a rate of 7 per cent. for the whole year? A.—Yes.

Q.—That would be done I suppose at the annual meeting of the shareholders of the National Agency Company? A.—Just before, I think.

Q.—By the Board of Directors? A.—Yes.

A.—And then confirmed by the shareholders? A.—Yes, I presume.

Q.—Mr. Symons asks me to put in this circular that was prepared by your company or the National Agency Company, Limited, and I do not know that there is any objection to it at all; I suppose it was issued on the date it was dated, March 31st, 1906? A.—Yes.

Q.—Was this mailed to all the shareholders of the National Agency Company? A.—I think so, yes.

Circular dated March 31st, 1906, filed as Exhibit 103.

Q.—That would be a notice which would enclose to him his dividend at the rate of 3½ per cent. for the half year? A.—Yes.

Q.—It says in this paragraph, "The higher rate to be resumed with bonuses when the opportunity shall arise"—What bonuses are referred to there?

A.—I think that probably meant the difference between seven and ten, which would take place in the interim.

Q.—That is an intimation to the shareholder that they would be paid the three per cent., the difference between the seven and the ten per cent., by way of a bonus later on? A.—I think so, yes.

Q.—That was the inference the shareholders was expected to draw from that? A.—I should think so, however that is a matter Mr. Symons

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could speak of much more accurately than I.

Q.—You would be able to say as to that, at least you ought to? A.—Yes.

Q.—You would assist in drawing this circular up? A.—Yes.

Q.—That is what you wanted the shareholder to infer, that when you could you would pay him the difference between the 7 and the 10, but in the meantime the dividend would be reduced? A.—Yes.

Q.—All due to the fact that an enquiry had been set on foot regarding insurance companies? A.—Yes.

Q.—And if the enquiry had not been commenced there would have been no reduction in dividend? A.—Possibly not.

Q.—Is this the minute of the first dividend (on page 12 of Executive Committee minute book)? A.—Yes.

Q.—This is a resolution passed at the meeting of the Executive Committee, is it not? A.—Yes.

Q.—The Executive Committee meeting of the National Agency Company, held on 12th February, 1902, present, Messrs Symons, in the Chair, Evans and Millichamp—were you all the members of the Executive Committee at that time? A.—Yes.

Q.—Just the three of you? A.—Yes.

Q.—The first thing that relates to this in any way in the minutes, I suppose, is the certificate of the auditor on which the dividend was based? A.—Yes.

Q.—I will read that: "The following certificate from the auditor was read, namely:

"To the Directors of the National Agency Company, Limited. Gentlemen: I have examined into the business which has been done since the formation of the company, and the prospects of business for the next two months, taking the basis of the present business, I would think the company would be safe in declaring a half-yearly dividend payable at the end of March, 1902, at the rate of ten per cent. per annum. Signed, George Clay, Auditor." It was then moved and seconded that a dividend, number one, be and is hereby declared of five per cent. for the half year ending 31st March prox., being at the rate of ten per cent. per annum on the paid-up capital stock of this company, and shall be payable to the shareholders entitled thereto as provided in by-law 29, at the company's office on Tuesday, first April, and that notice be sent to

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the shareholders accordingly. Carried." That was the resolution upon which the first dividend was made payable? A.—Yes.

Q.—What is meant in the certificate of the auditor—what did you understand it to mean, about the prospects of business? A.—Just no more than what it says, the business looked prosperous.

Q.—You were declaring a dividend on your future prospects? A.—It does not say so.

Q.—Is that what you understood? A.—No, that the business at that time was such as to warrant a payment of dividend.

Q.—"I have examined into the business which has been done since the formation of the company and the prospects of business for the next two months"—this was dated in February? A.—Yes.

Q.—And then he says a half-yearly dividend might be payable in the end of March, 1902? A.—Yes.

Q.—So that you were declaring then a dividend in February, payable at the end of March, 1902, and to do that you were taking into account the prospect of business between then and the end of March? A.—I do not understand it quite that way.

Q.—What do you understand from it? A.—The condition of the business at that time was such that we felt that the payment of a dividend would be in order.

Q.—You got, I suppose, this certificate from Mr. Clay in order to base that dividend on? A.—Obtained his opinion.

Q.—And I suppose you obtained it for the purpose of declaring a dividend? A.—Certainly, and—

Mr. Symons interrupts with a remark to Mr. Tilley.

MR. TILLEY: I will take my own course.

MR. McLAUGHLIN: It has been understood that a suggestion can be made by—

JUDGE MacTAVISH: The suggestion would have been better after the question had been answered.

MR. McLAUGHLIN: There is a very great difficulty in finding a time when a suggestion is acceptable.

MR. TILLEY: What have you to say about that, or do you recollect what the question was? A.—I would like to hear the question.

The Reporter reads the last question put.

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MR. TILLEY: You were asked to declare a dividend, will you put it that way? A.—We thought the condition of the business would justify the payment of a dividend, and we asked for the opinion of the auditor.

Q.—Were you anxious to pay a dividend? A.—I could not answer that question.

Q.—You say you cannot say now whether at that time you were anxious to pay a dividend or not? A.—No, I cannot.

Q.—At any rate the certificate of Mr. Clay was for the purpose of paying a dividend if possible? A.—If deemed advisable.

Q.—By you? A.—By the company.

Q.—I suppose that was known to Mr. Clay? A.—I should think so; I do not know.

Q.—Then I suppose when Mr. Clay was framing this certificate he had that in mind? A.—I could not say.

Q.—You do not know, then, when Mr. Clay was preparing that certificate whether or not he had it in mind that he was preparing it for the purpose of your paying a dividend on that date if it was possible? A.—I should think so from the certificate.

Q.—Should not you think from the form of the certificate he was basing his opinion to some extent on the prospects of your business for the next two months? A.—I could not say.

Q.—You were the person that was in control of the company? A.—Yes.

Q.—What was your opinion at the time? A.—Ask the question again.

Q.—I ask you now whether you did not at that time think that Mr. Clay in order to express an opinion favorable to paying a dividend had to base partly on the prospects of business during the next couple of months? A.—I could not say what was in his mind any more than he expressed in the certificate that he gave us.

Q.—Was that the only resolution that was passed regarding that? A.—I could not say.

Q.—Where is the statement that Mr. Clay certified to at that time or prepared at that time? A.—Probably in the minutes.

Q.—Here are two statements in the National Agency Company's minute book for the directors—that is the Directors' minute book? A.—Yes.

Q.—The statement is dated March 21st, 1902? A.—Yes sir.

Q.—Then this statement of course would not be in existence at the time the dividend was declared, not at the

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time the resolution of the Executive Committee that we saw— A.—Not according to that date.

Q.—But it would come into existence between that date and the date the dividend was paid? A.—Yes.

Q.—Apparently this was inserted in the minutes of a meeting held on April 1st, 1902 and inserted at page 12 of the book? A.—Yes.

Q.—And then there is page 14, a statement of assets and liabilities, dated February 12th, 1902? A.—Yes.

Q.—And that would probably be the statement of assets and liabilities on which Mr. Clay issued his certificate? A.—I could not say as to that, it looks as if it would be.

Q.—Whose writing it that? A.—It is mine.

Q.—Do you know what you prepared it from? A.—No, I do not recollect now, it was some four years ago. (Looks at statement.)

Q.—Is that right? A.—Yes.

Q.—I see that it says at the top, "Audited summary of assets and liabilities"? A.—Yes.

Q.—That would be audited by whom? A.—Mr. Clay was the auditor.

Q.—Why is this statement of March 21st, 1902 inserted in that place in the minute books? A.—I cannot tell you.

Q.—From the minutes what was done at that time? A.—I have not read that.

Q.—Well, look at that, "A special meeting of the Board of Directors held Tuesday 1st April, 1902"? A.—Yes, I should say that would be in connection with that meeting.

Q.—I see on page 15 of the minute book is this resolution: "Moved by Mr. Percy, seconded by Colonel Jones: "In view of the question raised as to the propriety of valuing contingent premiums in estimating the assets of the company for dividend purposes, be it resolved that a contribution for a sum equal to the gross amount of dividend number 1 be accepted from the directors as a contribution to surplus account, such contribution not to be taken as an admission of the impropriety of any such valuation." At the time that resolution was prepared had the dividend been paid? A.—What date was that?

Q.—First April? A.—When was the dividend payable?

Q.—At the end of March, but I want to know whether it was actually paid

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at that time or not? A.—I would have to look it up.

Q.—It is payable on the first April, payable on that date? A.—Probably the resolution was passed immediately prior to the payment of the dividend.

Q.—So that the resolution was passed immediately prior— A.—I do not know, I suppose so from the look of the minutes.

Q.—Can you find that out? A.—No, but I would think it would be.

Q.—If you are not going to let me assume it was, I should like you to make sure of it.

MR. SYMONS: That resolution was passed before the dividends were sent out.

MR. TILLEY: We have then this, that a resolution was passed before that dividend was paid whereby the directors permitted to pay into the surplus funds of the company a certain sum of money equal to the dividend? A.—Yes.

Q.—In view of that will you say that you cannot tell me whether you were anxious at that time to pay a dividend? A.—No, I cannot say definitely.

Q.—Were you one of these directors that were to pay in the money? A.—Yes.

Q.—Who were the other directors? A.—I think Mr. Symons, Dr. Millichamp and Colonel Jones, and there may have been one or two others—Dr. Hughes I think and Mr. Percy.

Q.—Have you anything that shows the payment in of any sum of money pursuant to that resolution? A.—I could not say.

Q.—Can the cashier get it for us? A.—Mr. Symons could say more than I can.

MR. SYMONS: I can make an explanation about that. At that time of course a doubt had arisen, and the Executive Committee declined to take upon themselves the responsibility of paying that dividend without the concurrence of the Board. The question of that propriety having arisen and it might have been held subsequently that the dividend was not properly paid, it was agreed then that the directors should stand in to pay that amount if required. The cash was not actually paid, but all signed a demand note for the amount. Subsequently the matter came up before the shareholders, and the action of the Board of Directors was ratified, as you will see by the minutes, and that note was

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ordered to be delivered up, to be cancelled.

MR. TILLEY: We have the situation in this way, that no money was paid in pursuant to that resolution A.—Yes, that would be it.

Q.—But a demand note was given, signed by all the directors? A.—I could not say signed by all.

MR. SYMONS: Yes, signed at all? A.—Certainly, quite a number.

MR. TILLEY: And that demand note was a note payable by you directors in favor of the National Agency Company, Limited? A.—Yes.

Q.—And it was a note for the amount of the dividend? A.—Yes.

Q.—Given because one director questioned your right to pay a dividend? A.—I could not say as to that.

Q.—It says here "That in view of the questions raised as to the propriety of valuing contingent premiums in estimating the assets of the company"—so that that question must have been suggested or raised by some person present at your meeting I suppose? A.—I could not say how it was raised, but it evidently had been.

Q.—Whether it was by some director or not you could not say? A.—No.

MR. SIMONS: I raised that question. I was the legal adviser of the company as well as the President. I desired to see all steps taken were absolutely correct and the directors were acting within their authority, for that reason I suggested in view of the doubt it would be better for the directors to make the position of the company good in case the money had to be refunded.

MR. TILLEY: So that the directors paid out a dividend of five per cent, that amounted to how much money? A.—\$3,900 I think it was.

Q.—And took a demand note of the directors for the amount? A.—Yes.

Q.—Not admitting, possibly, it was an improper payment, but at any rate all that was done because of the grave doubt as to the payment being justified at that time? A.—A doubt had been raised.

Q.—A doubt that you regarded as serious enough to have all the directors become personally responsible for the amount at the time before you

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would let the money go out? A.—Yes, we will let it go at that.

Q.—What item was it in this account of assets and liabilities that was in doubt? A.—I think it was these items.

Q.—You are referring now to the items at the top of the statement on page 12? A. Yes.

Q.—Read the one you refer to? A.—By contingent premiums, ten months, \$18,000; by deferred premiums less 15 per cent of collection, \$10,710. I am not positive, but I think those are the two items.

Q.—So that you see these two were questioned, one being contingent premiums, and the other deferred premiums; explain the difference between contingent premiums and deferred premiums? A.—As near as I can recollect the contingent premiums were substantially the value of the business at that time, and the deferred premiums were those, the balance of that year's premiums, the commissions on that year's premium which had not been yet paid in; I may be incorrect as to that, but that is my recollection at the moment.

Q.—What you mean is that the deferred premiums were premiums due in that year? A.—Yes.

Q.—Contingent premium you say covered the value of the good will of the business, is that what you mean? A.—Yes, the value of the business.

Q.—Does it not mean this, that deferred premiums are premiums that are due but the payment of which is extended over a period of time, is not that what is meant by deferred premium? A.—Yes.

Q.—Some premium that in reality is due, but the payment of it is postponed? A.—Deferred for the time being.

Q.—A contingent premium is a premium that is not yet due at all? A.—I should say so, yes.

Q.—Was it both of these items or was it one of them in particular that was questioned? A.—I could not say now.

Q.—You know it had to do with premiums? A.—I think it was one of these two items or it may have been both; I could not answer now definitely which one it was.

MR. McLAUGHLIN: I understand Mr. Symons as counsel and solicitor for the company drew all of these minutes and memos as he thought wise. He is really the man who

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could give the explanations A.—Yes.

MR. TILLEY: You are the President of the Union Life? A.—Yes; there was no Union Life at that time.

Q.—What position did you occupy with the company at that time? A.—I was secretary at that time.

Q.—And you are still Secretary? A.—Yes.

Q.—And I suppose you were the party that initiated the National Agency or planned it originally? A.—Yes.

Q.—You are as much interested in it as any person else at the present time? A.—Yes.

Q.—Probably more interested? A. Well, as much, we will say.

Q.—We will take your recollection of it for the present, then probably Mr. Symons afterwards; do you know what opinion Mr. Clay expressed as to those items of contingent premiums and deferred premiums, other than what the certificate shows? A.—No, I do not.

Q.—You cannot detail any conversation at all? A.—No, I could not.

Q.—Between you and Mr. Clay on this matter of deferred and contingent premiums? A.—No, I cannot.

Q.—It must have been discussed? A.—It may have been, but I have no recollection of it at this time.

Q.—A matter of such moment that you were all becoming liable you would naturally talk it over with him, would you not? A.—Yes, no doubt we did.

Q.—You must have had his opinion more than what is shown in this certificate? A.—It is expressed there whatever he thought about it.

Q.—Does that item of contingent premiums extend through the other statements of assets and liabilities of the National Agency in later years? A.—No.

Q.—When did it cease to exist? A.—I do not remember now, you will find it in the statements.

Q.—See if you can tell me when that item was dropped? A.—It appears to have not appeared after September 15th, 1902.

Q.—Was that the first statement of assets and liabilities after the one of March, 1902? A.—I will see.

Q.—I suppose it would be the one, 6 months? A.—Probably.

MR. SYMONS: The end of the year 1902, it would be the annual statement.

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MR. TILLEY: Here is one August 30th, 1902, so that in the very next statement of assets and liabilities that item had passed out of the account? A.—Yes.

Q.—In the statement of assets and liabilities of March 21st, 1902, with that item in, representing \$18,000, the surplus was only \$5,061.14? A.—Yes.

Q.—Did that include the dividend that had been paid there? A.—I should think the dividend would be included in that, but this was on March 21st, the dividend was not paid I understand until about first April.

Q.—So that there was a dividend of some three thousand dollars odd to be paid at the end of March, and on March 21st with this item of contingent premiums at \$18,000 in your surplus was only \$5,000 and a little over? A.—Yes.

Q.—In your statement of August 30th, 1902, what item took the place of that contingent premium? A.—The business at that time was transferred to the Union Life Insurance Company, and all of those items disappeared entirely, and the stock of the Union Life Insurance Company took the place of it, as you will find here, "By stock held by the company;" most of that I take it was Union Life stock with the amount we had paid on it at that time.

Q.—You then not knowing whether the contingent premium was a proper asset to have in the statement of assets, passed it out of the account when the company had been incorporated whose stock you could show as an asset in place of it? A.—The agreement we had was not the same agreement we were operating under when this statement you refer to here was made up.

Q.—That is to say when the first statement of March 21st, 1902, was prepared you were not operating under the same agreement as in August 30th? A.—No, we were managing agents when the first agreement was made up for the North American Life Insurance Company. At this time we were in a different position, we had paid the Union Life Insurance Company and held its stock.

MR. McLAUGHLIN: Those premiums are transferred to the Union Life? A.—What might have been a proper asset under one agreement might not be a proper asset under another.

MR. TILLEY: Is that your explanation of it? A.—I should say so; that

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is my recollection at the present time. The two agreements were radically different.

Q.—Was the dividend paid at the end of March? A.—Yes, I think so.

Q.—And the note was taken from the directors for the amount of it? A.—Yes.

Q.—Then was that note kept as an asset of the company? A.—It was retired the next meeting of the shareholders, I think, that was brought up at the next meeting of the shareholders, and the shareholders voted to retire the note and relieve the directors.

Q.—I see right after the resolution as to the payment of the directors, and the amount of dividend is this resolution: "Moved by Dr. Hughes, seconded by Mr. Percy: "That a demand note be taken and held to provide the contribution to surplus account to be furnished by the directors (page 15 of minute book)? A.—Yes.

Q.—And it was in pursuance of that resolution the demand note was to be given? A.—Yes.

Q.—And the matter stood in that position until the shareholders met? A.—Yes.

Q.—On page 35, this resolution appears in the minutes of the shareholders; held 23rd April, 1902, that would be the following month? A.—Yes.

Q.—A special meeting of the shareholders was held? A.—Yes.

Q.—And it was moved by Mr. Hunter: "That the note given by the directors as contribution," etc. (Reads down to the words "Hereby forever released")—when that resolution was passed by the shareholders the note was cancelled? A.—Yes.

Q.—And the directors did not continue liable for that note as between them and the company at any rate longer? A.—No.

Q.—That is under its resolution? A.—Yes.

Q.—The Executive Committee book contains this statement of assets and liabilities, on February 12th, 1902, what was the contingent premium account then? A.—\$19,500.

Q.—Can you explain the difference in that month or six weeks? A.—No, I cannot.

Q.—I suppose that would be purely an arbitrary amount? A.—It might seem so, but no doubt it is arrived at at that time.

Q.—By whom? A.—No doubt I did.

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Q.—Will you explain the scientific basis that you arrived at that upon?

A.—The number of times probably on the premiums in force, I do not remember the number of times.

Q.—How did you figure it out, cannot you tell me from memory? A.—No.

Q.—Here was an item of \$19,500, the middle of February, and \$18,000 the 21st of March? A.—Yes, it is the number of times; probably we took a fewer number of times the second valuation.

Q.—That is something Mr. Clay would not be able to arrive at at all, not being an actuary or an insurance man? A.—I suppose not. He is an auditor, I understand for one or two other companies, and is thoroughly competent to pass an opinion upon it no doubt.

Q.—Is that what you say now? A.—Yes.

Q.—He has been your auditor for a long time? A.—Yes.

Q.—Does Mr. Clay exercise his discretion? A.—We would submit it to him for his consideration; he might not initiate the matter, but he would pass judgment upon it.

Q.—Look at the item of directors' minute book page 20; there is a statement of asset and liabilities June 1st, 1902? A.—Yes.

Q.—That would be just another month later? A.—Yes.

Q.—What is the contingent premium account there? A.—\$25,365.

Q.—So that in February it was \$19,500, March \$18,000, and June 1st, \$25,365? A.—Yes.

Q.—Can you explain any way for the variation of that item to that extent in two or three months? A.—The difference between June and February would probably be explained in this way: there is a large business done between February and June, and the same number of times was probably adopted in June as it was in February; the lower number of times may have been adopted in March, at the time the dividend declaration was taken out, so as to make it a little more conservative.

Q.—Was that item arrived at by multiplying your weekly or monthly debit a certain number of times? A.—Yes, that is my recollection now.

Q.—Was it weekly debit? A.—Monthly at that time.

Q.—And you paid the North American Life on the basis of 7 times monthly? A.—Yes.

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Q.—You transferred it to your company, the Union Life, ultimately on what basis? A.—15 times.

Q.—The difference going to whom? A.—I do not understand your question.

Q.—Who would get the benefit of that difference between 7 times and 15 times—the National Agency Company? A.—Yes.

Q.—Cannot you say now how many times you multiplied it in February, March or June, either one? A.—No, I could not say.

Q.—But you think there might be that variation just in the volume of the business? A.—There was a large business done I know in that year from February till June, that is four months.

Q.—And it jumped from \$18,000 to \$25,000? A.—No, \$19,500.

Q.—No, \$18,000? A.—\$18,000 in April?

Q.—Yes? A.—You were speaking of the February statement.

Q.—I say that between April 1st and June 1st, you think that the value of that business might have increased from \$18,000 to \$25,000 and over? A.—We probably reverted to a higher valuation in June than we did in April, reverted to the valuation we made in February.

Q.—Have we it now, that in the month of June you used a higher multiplier? A.—Yes, I say that advisedly, I should think we would.

Q.—You did it? A.—I do not remember now, the volume of business may have accounted for it, but I cannot tell you.

Q.—Who in your office would do it? A.—I certainly did it.

Q.—You cannot give us any clue now in respect to how you arrived at that except by the case you have given us, that it might have been one thing and it might have been another? A.—I have stated to you definitely by the number of times, but I cannot tell the number.

Q.—I am asking you how the difference— A.—I have already stated the difference, it is the increase in the volume of business.

Q.—Is that it, or did you multiply the monthly debit by a larger multiplier? A.—I cannot tell.

Q.—You cannot say which it is? A.—No.

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Q.—At any rate the statements are made up and all seem to be certified, this one of June 1st apparently is not certified by Mr. Clay? A.—Apparently not.

Q.—You still have in the statement of June 1st deferred and outstanding premiums \$12,522? A.—Yes.

Q.—So that that is taken separately; what are the organization expenses in that statement of June 1st? A.—This would be the balance of that \$4,100, whatever it was there—we wrote off part of it, I think it was \$4,100, we wrote off the difference, that is the remainder \$3,600.

Q.—Just see the second dividend statement of August 30th, 1902, again, page 28; the second dividend is referred to on page 30 of the Directors' minute book: "Moved by Mr. Percy, seconded by Colonel Jones: 'A dividend of five per cent.' " etc. (Reads minute down to the words "Ending on that date")—so that that dividend was declared on this statement we were referring to? A.—Yes, I should say so.

MR. LANGMUIR: Was that the statement where there was a value of \$25,000, the contingent premium?

MR. TILLEY: No, this is a statement of August 30th, 1902, where the contingent premiums had passed out.

Q.—At this time had you made the transfer to the Union Life? A.—Yes, it was made on July 16th, and this was dated September 15th.

Q.—The transfer made July 16th, six weeks before this statement was prepared? A.—Yes, two months.

Q.—This statement is also certified by George Clay, "Examined and found correct," dated September 13th, 1902? A.—Yes.

Q.—The first item is, "By stock held by the Company," can you show me what that item is made up of? A.—I should think it would be mostly the stock of the Union Life.

Q.—I would like you to show by your books what it was? A.—That will have to be looked into.

MR. McLAUGHLIN: Mr. Carrie will look that up.

MR. TILLEY: "By stock held by the Company" we want to know where that \$147,000 was, Mr. Carrie.

MR. CARRIE: There is \$100,000 they held there.

MR. McLAUGHLIN; Then find out the premiums.

MR. CARRIE: \$50,000 there.

MR. EVANS: That would be it less directors' contribution.

MR. CARRIE: Yes.

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MR. EVANS: That would be \$150,000 less the stock held by the directors?

MR. TILLEY: In that item you have included \$100,000 for capital stock? A.—We have included what we paid for Union Life stock at that time.

Q.—\$100,000 of the capital stock? A.—Yes, 9,825 shares.

Q.—That cannot be right, that is par value?

MR. CARRIE: That is par, yes.

MR. TILLEY: 9,825 shares, which would be the full 10,000 less what the directors had?

MR. EVANS: Yes, it would be about \$15 a share paid in at that time.

MR. TILLEY: So that you had paid in \$100,000 for all the stock, leaving out premium at that time?

MR. CARRIE: Yes.

MR. TILLEY: And that premium account on that same stock had been paid how much?

MR. EVANS: \$50,000.

MR. TILLEY: \$50,000 of the National Agency Company had been paid in to the Union Life Company? A.—Yes.

Q.—And the National Agency Company at that time had also paid for the stock that the directors held? A.—They had. Right here I would like to make a correction as to my evidence of yesterday; in looking up the minutes I find that the qualification for the Union Life directors was paid by the National Agency Company to the directors, and the director paid it to the Union Life. You will find it in the minutes. It was not paid direct; it was a remuneration.

Q.—Let us have the item now so that we can get that straight if it was not right before? A.—Here it is.

Q.—Then, at a special meeting of the Board of Directors held June 4th, 1902— A.—Yes, this resolution was passed.

Q.—Commencing at the bottom of page 21? A.—Yes. (Reads resolution.) "That the sum of \$150,000 be paid to the Union Life Insurance Company," etc. (Reads down to the words "and for other services in this connection.") That was carried.

Q.—The amount of the directors' stock was how much? A.—175 shares.

Q.—What percentage was then to be paid? A.—Ten per cent. on the call.

Q.—That would amount to? A.—\$252 without the premium.

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Q.—How much was the premium? A.—At that time it was 5 per cent.

Q.—Five per cent., that was then the call on the premium? A.—Yes.

Q.—That would make another \$50? A.—Yes.

Q.—Making \$300? A.—Yes.

Q.—Then due for each director? A.—Yes.

Q.—And that was paid by the National Agency Company and charged by the National Agency Company to its organization expenses? A.—Yes.

Q.—And the stock became yours? A.—Yes.

Q.—Absolutely? A.—Yes, the directors'.

Q.—Was there anything then provided as to further calls on the same stock? A.—I don't remember.

Q.—You had a transaction there in June, 1902, whereby the stock was yours? A.—Yes.

Q.—You did not hold it in trust for the company in any way? A.—Absolutely not.

Q.—But the company was paying your calls, paying a call of ten per cent. and five per cent? A.—Yes.

Q.—Ten per cent. to be credited as paying up the stock, and the other five per cent. merely a premium, and it did not go to pay up the stock at all? A.—No, that is right.

Q.—Leaving you still liable for 90 per cent? A.—Yes.

Q.—Why was not that made 15 per cent. on the stock instead of 5 per cent premium and 10 per cent of call? A.—Because we always used to maintain a surplus of \$100,000.

Q.—Because you wanted to maintain a surplus in the Union Life Company of \$100,000? A.—Yes.

Q.—And for that reason you wanted to pay the money in in some way that it would not be regarded as capital? A.—Yes. on account of the large expense in establishing an industrial company.

Q.—And that has been a prime object with you ever since you started the life insurance company? A.—Always to maintain that surplus.

Q.—For the purpose of comparison? A.—So as to strengthen the position of the company with the public for the benefit of our agents.

Q.—The company would have no more money than if it was paid in on capital? A.—No.

Q.—It would be no better off financially? A.—It would have a much better prestige.

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Q.—That is for advertising? A.—Yes.

Q.—Just to be able to say that the stock of this company has not been impaired and you cannot refer probably to another company in Ontario that has an honest business whose stock has not been impaired? A.—Yes, that is substantially the position.

Q.—Coming back to this question about your stock, that was the first payment of ten per cent.; has any further payment ever been made on account of stock? A.—No.

Q.—All other payments that have been made since are on account of premium? A.—Yes.

Q.—And how much has been paid on account of premium in addition to the first 5 per cent? A.—Altogether?

Q.—Yes? A.—I think \$37.50 per share in addition to the five.

Q.—That is to say, there has been 42½ per cent. paid in for premium altogether, and there has been 37½ per cent. paid for premium on your stock since—by whom? A.—By the National Agency Company.

Q.—And is there any resolution in the books of the National Agency Company authorizing that payment on your stock? A.—I cannot answer that, I do not know, I do not remember.

Q.—You have plenty of assistance here to find out? A.—It will be in the minutes; we will look for it.

Q.—Surely some person can give you the information.

MR. McLAUGHLIN: It is hardly right to call it payment on stock of the directors. It is purely a voluntary payment.

MR. TILLEY: All I would like to know now is whether there is any reference to that in the minutes.

MR. McLAUGHLIN: I think you will find in the minutes of the National Agency Company authorizing payments.

MR. TILLEY: I would like to see how those are worded.

MR. McLAUGHLIN: Just turn up what minutes there are.

MR. SYMONS: I will look them up.

MR. TILLEY: While that is being looked up do you remember the letter that was written to the Superintendent of Insurance of July 6th, 1902, the second paragraph of that letter reads as follows: "The shares subscribed for by the seven directors was not subscribed in trust but individ-

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ually for their own use only, and are so held, and the ten per cent. was paid through the cheque of the National Agency Company and charged to the directors who have contra accounts against that company" (Part of Exhibit 49)? A.—I do not know anything about that letter, I do not remember writing it.

Q.—That is a letter from Mr. Symons to the Superintendent of Insurance, where it is said the payments were made by the National Agency Company on behalf of the directors, and charged against them, that they had a contra account against the National Agency Company? A.—I do not remember, I did not write the letter.

Q.—However, the thing was done just as you have told us in the minutes, it was paid and charged up to organization expenses, and given to the directors for their care, pains and trouble and so on? A.—Precisely.

Q.—You say premium calls amounting to \$37.50 on every share in addition have all been paid by the National Agency Company? A.—Yes, under the agreement they made to provide the additional calls whenever they might be required.

MR. SYMONS: Here is one of those resolutions.

MR. TILLEY: Suppose we say that is a typical one, is it?

MR. SYMONS: Yes.

MR. TILLEY: The one of Monday 26th October, 1903, Union Life Stock premium—this is from the Executive Committee minute book, page 52—"The Executive Committee"—I suppose this would be yourself and Dr. Millichamp and Mr. Symons? A.—Yes.

Q.—Three of the persons at any rate who held this stock, of course that would be so of necessity because you people were the directors? A.—Yes.

Q.—This resolution reads this way: "That the proper officer do pay the supplementary calls on premium account of 7 per cent. upon the capital stock held by the company as well as that held by the directors in the Union Life Insurance Company. Carried"—I suppose that was done? A.—I think so, yes.

Q.—Was there any authority for that? A.—How do you mean by that?

MR. SYMONS: It was confirmed by the shareholders and appeared in the accounts.

MR. TILLEY: Let us take one of the confirmations. Here is the share-

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holders' minute book. I see when you held a shareholders' meeting you usually had, at any rate originally all the shareholders who were present in person sign the book? A.—I am not sure as to that.

Q.—Here is a meeting, page 27, where there are three or four persons present, and they all signed? A.—Yes, that practice may not have been adhered to, I could not say as to that; I did not write the minutes.

Q.—Do you know why that was done? A.—No, I could not say.

Q.—You had a great many I suppose that would be represented by proxy at every meeting? A.—Yes.

Q.—Are those permanent proxies you held? A.—Yes.

Q.—You did not get them for each meeting? A.—No.

Q.—Who is the proxy named? A.—I am in a great many of them.

Q.—I think you are the only person I have seen here acting as proxy; has any person else acted as proxy? A.—Yes, some of them.

Q.—Who? A.—I think Dr. Hughes acts for some, and Mr. Symons for some.

Q.—Did you have a permanent power of attorney or proxy to act for these shareholders until revoked? A.—Yes, I think so.

Q.—There is power to revoke it? A.—Yes.

Q.—Have you sent in the form of that proxy? A.—I could not say.

MR. SYMONS: Yes.

MR. TILLEY: On page 23 you have this resolution: "That all and every the actions heretofore taken by the Board of Directors, the Executive Committee and the members thereof in connection with this company, including the correspondence, prospectuses, or other typewritten matter, sent or issued by them, and as well the matters set out in the minutes of their respective meetings as shown in their respective minutes books from 22nd August last until the date of this meeting inclusive, be and the same are hereby ratified to all intents and purposes"—was that sort of resolution that you rely on for confirming payments of premiums made on your stock? A.—I could not say; that resolution was passed by the shareholders for the purpose it purports to be.

Q.—That is rather a broad confirmation, at any rate that would cover

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everything you had done? A.—Yes, pretty near.

Q.—Then you say this item of stock held by the company as one of its assets, does that include the directors' stock? A.—No.

Q.—Does it include premium on directors' stock? A.—No.

Q.—It does not include anything paid with respect to the directors' stock at all? A.—No.

Q.—August, 1902, there has been only one premium called, 5 per cent.? A.—Yes.

Q.—The bonds held by the company, \$12,000, what were those? A.—I think they were \$7,000 of Port Hood Coal Company, and \$5,000 of Quebec Light & Power Company bonds, I am not certain about that, that is my recollection.

Q.—There is no doubt about that, is there, Mr. Carrie, as to this \$12,000 in the statement of August 30th, 1902, that is \$7,000 Port Hood Coal Company—

MR. CARRIE: Yes, and \$5,000 Quebec Light & Power Company. This is, you understand, a preliminary statement.

MR. TILLEY: Those are taken in at par?

MR. EVANS: Yes.

Q.—And have been continued at par ever since in your annual returns? A. I think so. The Port Hood bonds were retired from the account of the Union Life eventually.

Q.—When? A.—I do not remember, I think about two years ago.

Q.—Why? A.—Because the interest I think had defaulted on them, and we found it was not satisfactory, and we turned them back to the National Agency Company.

Q.—At what price? A.—At the price they were purchased at.

Q.—JUDGE MACTAVISH: What bonds? A.—The Port Hood Coal bonds.

MR. TILLEY: What did you pay for them? A.—\$7,000.

Q.—To whom? A.—To the National agency Company.

Q.—What did the National Company pay for them? A.—\$7,000.

Q.—To whom? A.—E. A. Webb, who was the General Manager of the Union Bank of Canada at Quebec.

Q.—Was that the transaction you spoke of this morning that he had been of some assistance to you, and you gave him some remuneration for it? A.—Yes.

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Q.—Was part of the remuneration the buying of those bonds at that price? A.—No; I do not quite understand you.

Q.—What about the Quebec bonds? A.—They were both bought at the same time.

Q.—From the same person? A.—Yes.

Q.—And the National Agency Company bought and paid for both? A.—Yes.

Q.—And the Union Life took them from the National Agency Company at par? A.—Yes.

Q.—Are the Quebec bonds still carried? A.—Yes.

Q.—At par? A.—Yes.

Q.—The Port Hood bonds were carried at par till they were taken out of your books entirely? A.—Yes.

Q.—There was never any depreciation or market value reduced with respect to those bonds? A.—No. As soon as the interest was defaulted I understand they were taken back by the National Agency Company.

Q.—You know that to be a fact I suppose? A.—I would not say whether it was that date, but shortly after.

Q.—What do notes held by the company mean? A.—Those would be shareholders' notes on account of payment of stock.

Q.—Stock in what company? A.—The National Agency Company.

Q.—So that this would be an asset of the National Agency company? A.—Yes.

Q.—The company's share of the premium collected, not due, that would be from other shareholders? A.—Yes.

Q.—What would be this item, liabilities contingent surplus, amounting to \$48,000? A.—That is the difference between—I do not know how that is arrived at, but I suppose—

Q.—That is the difference between assets and other liabilities? A.—Yes.

Q.—Why do you call it a contingent surplus, and not surplus? A.—I could not answer that, I do not know.

Q.—Surely you would know that, would not you? A.—No, I do not.

Q.—You do not know why that is called contingent surplus? A.—No.

MR. CARRIE: Possibly it was on account of the contingent assets that there may be in that statement.

MR. TILLEY: What are the contingent assets that you refer to Mr. Carrie?

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MR. CARRIE: On the stock that might be subscribed for and unpaid and the premiums thereon, whatever they would amount to at that time.

MR. EVANS: I think I know now. I think that is the premium on this uncalled stock, I think it was premium on the capital that was uncalled at that time.

MR. TILLEY: Q.—Had you treated the premiums on uncalled capital as an asset?

MR. EVANS: Yes, because the capital was subscribed but not paid in.

Q.—Do I understand you treated as an asset of the National Agency Company all the stock that was subscribed? A.—Certainly, most assuredly.

MR. McLAUGHLIN: There is liability too, so they are only cross-entries? A.—Yes.

MR. TILLEY: If it was put in as an asset and also as a liability what was the object of that? A.—I do not understand your question.

Q.—Mr. McLaughlin says this uncalled capital was also treated as a liability? A.—Yes.

Q.—So that there is nothing to this criticism of that statement that you have been treating uncalled capital as an asset; why would that be treated as an asset and also be treated as a liability? A.—We have always done that.

Q.—I notice this is the first statement since Union Life was formed, why do you do it that way, is it to get the benefit of the premium on the stock in your balance sheet? A.—The shareholders were liable for it and it might be called at any time.

Q.—You had not called it? A.—At that date, I could not say.

Q.—You have never called more than ten per cent? A.—Yes, this is capital stock of the National Agency, and it has been all called.

Q.—At that time you were including uncalled capital because it was uncalled? A.—Yes, it was subject to call.

Q.—It had not been called? A.—It may not have been called at that date, but it may the next day or the next month.

Q.—At that time it was not called? A.—It says it was not called.

Q.—It was not called? A.—No.

Q.—You put in your list of assets your uncalled capital and add to it the premiums that you are going to

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get from the shareholders? A.—All that was uncalled and subscribed.

Q.—All the uncalled private capital and the premium of it? A.—Yes.

Q.—That was put in as an asset? A.—Yes.

Q.—On the other side of the account you put it as a liability, the amount of the call and not the premium? A.—It is treated there as contingent surplus.

Q.—You put in the stock without the premium as one item? A.—Yes.

Q.—And in the other item it is really premium on the capital stock that has been subscribed which constitutes your surplus; you call it contingent surplus for the reason it has been called and has not been demanded, and is not yet due? A.—Yes, you could not put it in as a liability, because it is not a liability.

Q.—The whole of that surplus in that statement, the surplus consists of the premium that shareholders are yet to pay on their stock? A.—No, there is \$18,422 besides that.

Q.—That is the last item? A.—It is the same item.

Q.—But in this item that you call surplus that consists entirely of the premium yet to be paid on stock that has not been called? A.—An item called the contingent surplus.

Q.—I see your liabilities, debentures? A.—Yes.

Q.—What debentures have the National Agency Company issued? A.—Those debentures were issued as collateral to a call loan.

Q.—What call loan was it? A.—\$35,000.

Q.—The National Agency had? A.—Yes.

Q.—From whom? A.—I think the Union Bank.

Q.—For what purpose? A.—The purpose of the National Agency Company.

Q.—For what purpose of the National Agency Company? A.—The purposes for which it was organized.

Q.—What was the money used for, what would they be wanting? A.—To hand to the Union Life for the conduct of its business.

Q.—So that the National Agency Company had to borrow \$50,000 to pay for this? A.—\$35,000.

Q.—And they issued debentures? A.—As collateral.

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Q.—What were those debentures on? A.—They were a general charge on the assets of the company.

Q.—A general charge on all the assets of the National Agency Company? A.—Yes.

Q.—To get the money to pay the capital stock and premiums, or part of it at any rate, the National Agency Company borrowed from the Bank \$35,000? A.—Yes.

Q.—And then gave the Bank security on everything that it had for that money by way of debentures? A.—The debentures were a first charge on the assets of the company.

Q.—What assets of the National Agency Company would that be on? A.—It would be on the Union Life stock and these bonds, \$12,000, notes, the assets that are scheduled out in that statement.

Q.—The debentures would be issued on such assets as these: stocks held by the company, and the two bonds you have spoken of, Port Hood and the Quebec bonds? A.—Yes.

Q.—Promissory notes, the company's share of premiums collectable but not yet due; the organization expenses, were they included? A.—Included in the statement.

Q.—So that debentures would be a charge on organization expenses, uncalled stock and premium, and cash in the banks and on hand; have you one of the forms of debentures here? A.—No, we can get you one.

MR. McLAUGHLIN: We will have one in the morning.

MR. TILLEY: How much were the debentures issued for? A.—It says here \$35,000.

Q.—And you do not show the loan from the bank, you say the debentures were issued as collateral security? A.—I may not be quite right about that, but my recollection is they were issued as collateral.

Q.—Has the National Agency Company issued any further bonds? A.—Yes.

Q.—To what extent? A.—I think about \$150,000 or \$160,000.

Q.—The company has taken authority to issue some \$250,000? A.—Yes.

Q.—But it has not issued over the \$160,000? A.—No.

MR. SYMONS: Would it be proper at this stage to trace the disposition of that \$35,000 issue; it was subsequently retired.

MR. TILLEY: Yes.

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MR. SYMONS: That \$250,000 issue was a subsequent one.

MR. TILLEY: Let us have the record.

Q.—Commencing with Mr. Evans' statement, is that right that it was collateral to a loan?

MR. SYMONS: That arose in this way, the Directors gave their note and discounted it in the bank and took those debentures as collateral, and the note subsequently was retired and the debentures given up for cancellation, and following that this trust issue was authorized, \$250,000.

MR. TILLEY: Mr. Evans points out at page 31 of the minute book of the board of directors, "Moved by Dr. Huges, seconded by Col. Jones, That the debentures of the company as authorised by by-law number 39 be issued from time to time to the President for the time being as trustee for the directors, etc. (Reads whole resolution.)

Q.—So that the transactions seems to be that certain persons who had subscribed for stock in the National Agency Company had given their notes for the full amount or part payment on account? A.—Yes.

Q.—These notes in the aggregate belonged to the National Agency Company? A.—Yes.

Q.—Were they put into the bank? A.—No.

Q.—They were kept by the company? A.—Yes; we did not wish to discount them individually.

Q.—So then you gave your note or a note of the company endorsed by the directors, or certain of them, to the bank? A.—Yes.

Q.—And debentures then were issued in your favor? A.—Mr. Symons as trustee.

Q.—On all the assets of the National Agency Company as security for you directors to protect you against your endorsement? A.—Yes.

Q.—That loan was paid? A.—Paid to the bank, yes.

Q.—And the debentures then were returned to the company? A.—Yes.

Q.—Have they been used since? A.—No, they have been cancelled.

Q.—You have explained an item of contingent surplus; let me see the next item of dividend that you paid, I think it is at page 86? A.—It is on page 82. (Shows.)

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Q.—Then is dividend then of February, 1905; then at page 86 there appears to be the minute of a special meeting of the Maritime Board, what is the Maritime Board of the National Agency Company? A.—That consisted of six or seven gentlemen in Nova Scotia who were acting as advisory directors, a sort of sub-board.

Q.—Where was this meeting held? A.—I could not say, I think Halifax.

Q.—Board of Trade rooms, Halifax, April 5th, 1905: "The report of the delegates to Toronto was then given, etc. (Reads minute on page 86, to the words "The meeting adjourned." Was the percentage that you received or were to receive from the Union Life, that is the National Agency Company was to receive, was it ten per cent. or twenty per cent? A.—Ten per cent. of the premium income.

Q.—That is you were to receive that clear? A.—Yes.

Q.—Was it represented that the dividend that the National Agency Company was paying was out of this ten per cent.? A.—Not altogether; it was to form part of the earnings of the company.

Q.—Had you received from the Union Life Company that ten per cent. at that time? A.—Yes.

Q.—Was it being paid to you? A.—Yes.

Q.—And you had it in hand? A.—Yes.

Q.—Notwithstanding the payment that had to be made to the Union Life at that time you say you had the ten per cent. out of which to pay the National Agency Company shareholders? A.—Yes.

Q.—Why do you say this was not entirely out of that? A.—Because there were other sources of profit.

Q.—What were the other sources of profit of the National Agency Company? A.—The premium on its capital and interest from investments it may have had.

Q.—You call the premium on its capital profit? A.—Yes.

Q.—Anything else? A.—Interest on any investments which it may have had.

Q.—Have you given me now all the courses of income? A.—I think so, all that occur to me at the moment.

Q.—You continued, I suppose, to include in your assets all the moneys paid to the Union Life Company whether for capital or on account of capital or on account of premiums? A.—Yes.

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Q.—Treating that as an asset all the time? A.—As an investment for the amount we had paid in.

Q.—Did you in any way take steps to ascertain whether the business was fairly worth that money that had been paid in, whether the Union Life—? A.—Only in a general way.

Q.—To what extent, if any? A.—We computed what we thought was a reasonable valuation of the business on the number of times, and made a comparison on the value we carried the business at in our books.

Q.—You seek to justify that item in your statement of assets by taking the weekly debit or monthly debit at the time that it was monthly debited, and multiplying it by a certain number of times, and then saying: Now, that is what that business is worth? A.—Yes; we do not seek to justify it, but we explain that was the reasonable valuation.

Q.—That amount is not an amount that you arrived at in that way, but it is the actual payments made in to the Union Life? A.—Yes.

Q.—And you say that—? A.—We compared that occasionally and found it was well within the proper valuation of the business, much below, in fact.

Q.—That we will take up later, because that is a separate matter as to the progress made by the Union Life? A.—Yes; we want an opportunity of making that clear.

Q.—That is probably something that is more of an actuarial question than it is from the manager's standpoint? A.—It is a very vital one to us that it should be made clear.

Q.—The next dividend apparently was in August, 1905, page 95, that was a dividend of five per cent.: "The dividend of five per cent. upon the paid up capital stock of the company be payable on the 30th day of September," etc. (Reads to the words "10 days previously thereto." There seems in that resolution to be a special clause as to payment of this: "Provided, however, that such dividend shall be calculated and credited," etc. (Reads whole clause.) What is that special clause at the end of the resolution for that dividend number 7 for, what does it mean? A.—Simply this, various calls had been made of 25 per cent.—

Q.—You mean calls on the National Agency Company stock on account

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of the stock itself? A.—Yes, the stock was originally sold at 25 per cent. called up, and the other three subsequent calls were made at different times, and the dividend was only to be paid to those who had paid up—if any man had paid up in the interval he was only to get his dividend for that length of time he had made his payment.

Q.—“Or as may be provided by any special agreement relating thereto respectively”—what does that mean? A.—I do not know, unless the issue of the certificate might state; if a man sent in a payment in the middle of the period his certificate might state he was not to get a dividend before that. We would probably want to make it clear on the stock certificate; I am not sure as to that, that would be my recollection.

Q.—You say that each shareholder shall be paid his dividend on his money while his money is in the company; that is practically what it means?

A.—Yes.

Q.—Then you say, “Or as may be provided by any special agreement relating thereto”? A.—Mr. Symons might be able to explain it; I did not draw the resolution.

Q.—Here at the end of the resolution, “Or as may be provided specially by any issued stock certificate”—what does that mean? A.—That would probably be as I explained to you.

Q.—That is to say, some stock certificate in favor of A. might be on different terms from a stock certificate in favor of B. is not that what it means? A.—No, it means one man's stock—supposing a man had paid in 25 per cent., then he paid the subsequent call of 25 per cent. on a different date, he would send in his original certificate and a new one would be issued at a different date, it might be half way between times of two dividend dates, and the stock certificate would provide no doubt that he would only receive his dividend from the time he paid in full.

Q.—What this resolution says is: “It is provided that the dividend shall be calculated and credited only from the respective dates of payment upon so much of the final call as shall have been paid before the day upon which the dividend was payable”—that is perfectly plain what you mean there? A.—Yes.

Q.—It is payable on the amounts paid previously? A.—Yes.

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Q.—For the time it was with the company? A.—Yes.

Q.—Why do you need to make any exception from that, any such thing as that, “Or as may be provided for by any special agreement relating thereto”? A.—I do not know.

Q.—Does not that mean there was some special agreement regarding dividends with certain shareholders? A.—No, I know nothing about that at all.

Q.—Will you look up the records about that and find out? A.—Yes.

Q.—All this time there seems to have been disputes or questions raised by some shareholders as to your right to pay dividend? A.—No, I do not think that the shareholders raised any.

Q.—Did not the Maritime Board raise that question? A.—I do not recollect of their doing so; if it is in the minutes no doubt they did, but I have no recollection.

Q.—Have you any recollection about that? A.—I do not recollect it now, if it is there it is no doubt so; I was mostly engaged in the life insurance management, and those things slipped my attention.

Q.—I see a resolution here on page 108, that seems to refer to the dividends after that year; it says, “Mr. Evans, Vice-President of the Company, was present and advised the Board,” etc. (Reads down to the words, “hereafter considered available for that purpose”)? A.—Yes.

Q.—Then it goes on to provide, unissued stock may be offered to the present shareholders at par; some further stock was issued? A.—I do not think so.

Q.—Are you sure about that? A.—No, I do not think there was; Mr. Symons can probably tell you.

MR. SYMONS: There has been no further issue.

MR. TILLEY: Other stock of the National Agency Company had been issued, had it not, Mr. Evans, and I think it was referred to this morning—did Mr. Shepley ask you about that? A.—Mr. Shepley spoke about it.

Q.—Mr. Evans, what determined the time at which you would call for further payments from the National Agency Company to the Union Life Assurance Company? A.—I do not quite understand your question.

Q.—What would be the thing that would decide you to make a further

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call? A.—The necessity for a larger investment by the National Agency to continue the business of the Union Life, to extend it.

Q.—The necessity for a larger investment for the National Agency in the Union Life in order to supplement the Union Life funds A.—Yes.

Q.—The thing that would make it necessary to get more money would be the need of money by the Union Life? A.—Or the prospective need of it.

Q.—When you speak of the prospective need do you mean the need of money to disburse, or the need of money to get ready for the end of the year? A.—It would probably be both.

Q.—It was the moving cause? A.—In any case it would the latter because it was always our desire that the \$100,000 surplus should be in hand on the 31st December.

Q.—We have then the house-cleaning at the end of the year always present? A.—Yes, you can call it that.

Q.—That would have to be attended to—I mean the annual statement? A.—Yes.

Q.—That had to be a sworn statement sent in to the government? A.—Yes.

Q.—And every year you would be anticipating that statement I suppose, sooner or later in the year, you would be thinking of it? A.—Yes; we would know during the year approximately what we would require at the end of the year.

Q.—And I suppose if it had not been for the sending in of that annual statement you would not have needed the money so soon in the Union Life? A.—It would depend on what our requirements were; we would need it sooner or later.

Q.—I am not asking you a theoretical question but a practical one; you can say now from what your experience was? A.—It might be we might need immediate money for the payment of current expenses.

Q.—It might be a hundred things, but I am asking you as a fact, you would not have required the money but for the annual return to the government? A.—It might be as I say on account of current expenses or it might be the necessity of reserve.

Q.—I want to know in your expense on these last three or four years, if it had not been for the annual statement you had to send in on the 31st December would you have need the money otherwise than for that pur-

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pose so soon as you did for that particular purpose? A.—Yes, I should think we would need it currently as we went along.

Q.—You needed it to pay out? A.—No, to provide for the necessary reserve on the business.

Q.—I am leaving out the compliance with the Act in that respect, I am asking you for your own purposes as an insurance company, not to show solvency, but for the purpose of paying out, you then needed the money? A.—Yes, needed it right along.

Q.—Do you put it this way, that the annual return did not hasten the payment in of money to the life insurance company? A.—It might have hastened it—

Q.—I want to know what it did, not might? A.—Certainly, we might put it in in December, but if we had not had to make the statement out we might not have till January.

Q.—Then the money was not paid in in December, and you might not have paid it in in January? A.—Quite so.

Q.—Or February? A.—Possibly.

Q.—March? A.—Possibly.

Q.—Or April? A.—Well, I should think we would need it by that time.

Q.—Are you sure you would need it during the whole of the following year? A.—It depends on what year you are considering.

Q.—I am considering any year? A.—The early years we would certainly need it right along, because our premium income is so small in an industrial company.

Q.—Take the year you would need it least, would it run through the whole year? A.—No, it would not.

Q.—How might it have run in any of those years? A.—I couldn't tell you. It is a purely theoretical question.

Q.—No, it is a practical question; you know what your needs were, and what money you had to pay out. Now I am not asking you as to a day. I am asking you as to a month, or a couple of months? A.—I+ would depend altogether on what business we did when the company would require the money.

Q.—You know what business you did? A.—Well, as I have stated several times, as we required it for the expenditures the money would be forthcoming.

Q.—Having regard to the requirements that existed during the time your company has been carrying on

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business, could it have run a whole year later than that December before you would need to pay in the money or the whole of it? A.—Oh, I think it would be required before the end of the year.

Q.—But you cannot say how long before? A.—No.

Q.—However, the annual statement had to be sent in, and that would make it necessary to show your condition on the 31st of December? A.—Quite so.

Q.—Now I suppose that you regard the Insurance Act as calling upon you to maintain the reserve all the time? A.—Yes.

Q.—Not only on the 31st of December? A.—Yes.

Q.—Did you do that? A.—Certainly, we had the reserve covered, and probably \$50,000 more in excess of it.

Q.—Now your transactions in getting securities from this exhibit that was put in, seem to be in the month of December? A.—Yes, large numbers of them.

Q.—Why would that take place in December? A.—Because it was at that time that we would feel it desirable to keep that surplus over and above the reserve up to \$100,000.

MR. McLAUGHLIN: The money paid in in December would be to make up impairment of capital, not of the reserve.

A.—A glance at the financial statement of the company will settle all that.

MR. TILLEY: Tell me just how you would proceed to get these securities into the possession of the Union Life Insurance Company in the month of December? A.—The Union Life would purchase them from the National Agency, and the National Agency would deliver them.

Q.—Before the Union Life could purchase them from the National Agency you would have to put the Union Life in funds? A.—Yes.

Q.—Where would you put the Union Life in funds? A.—They were no doubt transferred in some cases as part of the premium which the National was paying at the end of the year to the Union.

Q.—You say they were no doubt in some cases transferred as part of the premium; I thought that we had the premium transfers from the cash book this morning? A.—They may have been. I am not sure as to that. Some of them were shown by journal entries were they not?

Q.—Only a small amount of stock?

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MR. McLAUGHLIN: Turn up any entry you want, referring to any particular stock or security and then get at the facts.

MR. TILLEY: You were referring to payments shown in your cash book this morning during 1903 and 1904? A.—Yes.

Q.—Were they or did they purport to be in the first place cash transactions, or were they transfer of securities? A.—I think in most cases they were cash.

Q.—If they appeared in the cash book can you say whether they were cash transactions or not? A.—I couldn't say at this moment, no, but I think they would be, most of them.

MR. McLAUGHLIN: Mr. Carrie will explain that.

MR. TILLEY: I want to know whether those items you brought from the cash book this morning, Mr. Carrie, were transfers of cash from the National Agency Company to the Union Life or were they transfers of securities?

MR. CARRIE: (Continues to answer until a change is indicated.) I understand you to say, all items appearing in the cash book were purchases, were paid out for the stock, and all those items appearing in the journal were transfers. The stock was all transferred to the Union Life from the National Agency.

Q.—I am sure I do not understand what you mean by that. A.—Well, your question possibly covers such a large ground that I don't understand it.

Q.—You read this morning a list in the year 1904 of certain payments that were supposed to have been made from the National Agency to the Union Life, \$1,000, and \$2,000 and so on, totalling we will say in one year, in one case I think \$104,000 or \$109,000. Now I want to know whether those were cash or not cash? A.—Premium on the stock.

Q.—I am not asking you what they were paid for, but what they consisted of. Was it a cheque that was handed over, or a bond or debenture, or what was it that was handed over to the Union Life from the National Agency? A.—It was as you saw it.

MR. KENT: I would ask whether all the entries in the cash book are entries for cash, or journal entries put through a cash book?

MR. TILLEY: That is what I am trying to get at now sir. That is not

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such an involved question as you were indicating a minute ago, that is very simple? A.—They are all cash transactions.

Q.—What do you mean by cash transaction? A.—I mean where a cheque is issued and passed into the company's possession and then into their bank account, duly deposited in their bank account.

Q.—That is what I wanted to know. Then the first step in this process of showing an unimpaired capital in the Union Life Insurance Company would be the obtaining of money from the National Agency, Mr. Evans? (Mr. Evans continuing.) A.—Yes.

Q.—And I suppose both your account and the National Agency account would be in the same bank? A.—Yes.

Q.—That is the Union Bank? A.—Yes.

Q.—And then I understand from what the bookkeeper has told you, that each one of those entries that he read out this morning showing payments made on capital stock, or on premium account? A.—Yes.

Q.—That there would be a cheque issued for it by the National Agency Company to the Union Life Company? A.—Yes.

Q.—And that cheque would be deposited in the same bank, to the credit of the Union Life Company's account? A.—Yes.

Q.—And in that way the money would be shown to be paid from the National Agency Company to the Union Life Insurance Company? A.—Yes.

Q.—Now then in respect of those payments, take December 31st in the year 1903. You remember that payment of \$30,500: that made up the \$40,000 on the last day of the year? A.—Yes.

MR. CARRIE: (Continues until a change is indicated.) It is in two items: although I reported it as \$30,000, there is \$2,000 above that, and \$28,000. Here is the \$2,000 item.

Q.—The \$2,000 item is shown? A.—As a payment on the 8th.

Q.—Which book are you looking at? A.—The Union Bank.

Q.—But which company, the Union Life or the National Agency? A.—The National Agency.

Q.—On December 7th or 8th is that? A.—On December the 8th.

Q.—On the 8th of December, 1903, there is a debit item in the National

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Agency Company's book for \$2,000? A.—Yes.

Q.—That is part of the \$30,500? A. I believe it to be, yes.

Q.—Then on the 31st of December is a debit item for \$28,500. That would be the balance of it? A.—That would be the balance.

Q.—Then how did that leave the National Agency bank account in the Union Bank of Canada? A.—The bank balance shows that.

Q.—What does it show? I want it on the record. A.—\$20,108.42.

Q.—Which way was that balance? A.—That was the credit balance on that day as balanced here, at the first of the year, commencing the 1st year there was a credit balance of \$20,108.42.

Q.—What was this cheque or this debit item on the 2nd of January, 1904, \$17,423.67? A.—That was in 1903? I will have to refer to the cash book for that item.

Q.—January, 1904. What is that for? A.—I will have to refer to our cash book. The bank book simply shows a debit item.

Q.—Let us see the cash book then. A.—It is a payment to the Union Bank of Canada.

Q.—What was that payment to the Union Bank of Canada for on January 2nd? A.—On their current account.

Q.—Look at December the 31st and tell me what the credit item there is of \$16,845.36? A.—That would be a receipt from the Union Life of \$16,000 whatever those figures are.

Q.—\$16,845.36. A.—That is right.

Q.—That is a cash transaction? A.—Yes.

Q.—Between the Union Life and the National Agency Company? A.—Yes.

Q.—Now what would that cheque be issued by the insurance company to the National Agency Company for? A.—On account of their commission account, as in the agreement between the Union Life and the National Agency Company.

Q.—Then at what date at the end of 1903 did the Union Life take over from the National Agency the securities that are shown in this statement? I see here on December 31st the National Agency Company sold to the Union Life \$6,000 worth of securities. Where is that transaction shown? A.—I will have to refer to the ledger.

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Q.—Where is that shown, the purchase of those securities? A.—Would that not be a journal entry? You are asking me questions that you have compiled from books that you have had access to, and it is perfectly impossible for a bookkeeper to hand them to you right off the reel.

Q.—I hope I am not unduly pressing you. We have not seen the entries at all. A.—What stocks are they?

Q.—Dominion Permanent Loan, Canadian Birkbeck, Colonial Investment and Loan. A.—Those two stocks, the Dominion Permanent and the Canadian Birkbeck were both received and paid for by the Union to the National on the 31st of December. Then you have some Colonial have you?

Q.—Where is the entry for that? A. In the National Agency Cash book, a receipt to the Union Life, \$2,000.

Q.—The Dominion Permanent Loan stock that was bought was \$4,500 and the Canadian Birkbeck \$1,000 and the Colonial Investment \$500? A.—I think at that date you will remember it was transferred to the Colonial Loan, as I showed in the journal this morning. That Dominion Permanent Loan was from the journal 15 December 31st, \$1,000 in cash and there is a journal entry here for \$3,500; that is \$4,500. The other is the Colonial on the 31st of December, there was \$500 received through a transfer to the Union Life from the National Agency.

Q.—Is that cash? A.—No, the stock was transferred through the journal and taken credit for as bills receivable on that date.

Q.—That is to say that item is \$500 Colonial Loan and Investment stock, transferred to the National Agency Company to the Union Life on the 31st December, and paid for how? A.—Paid for by being credited to the note due to the Union Life by the National Agency that they had previously given at an earlier date.

Q.—Show me that entry? A.—Here it is. \$4,000. That is the \$3,500 and \$500.

Q.—That is to say that would include the \$500 of the Colonial Company and the \$3,500 of the Dominion Permanent? A.—That is correct.

Q.—That is the item of \$4,000 that Mr. Evans was to explain and that is the explanation of it.

MR. EVANS: It was Mr. Carrie was it not.

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Q.—One of you had the responsibility of looking it up, but that is the explanation, that \$4,000 consists of \$3,500 Dominion Permanent stock and \$500 Colonial? A.—(Mr. Carrie continuing.) Yes.

Q.—Where is the other Canadian Birkbeck? A.—Here are the other two items.

Q.—\$1,000 for each, for the Canadian Birkbeck and Dominion Permanent in cash. How were the price of those transferred to the National Agency Company? A.—The National Agency Company received \$2,000 in cash and also received a credit of \$4,000 against their note.

Q.—Where is the cash transaction shown here in your bank book? A.—There is a \$2,000 item there, possibly that is it.

Q.—You think that would be the \$2,000 item? A.—Yes, it is given on the same day.

Q.—Now in 1904, that was the year when the \$104,000 was transferred from the National Agency Company to the Union Life and of that of December 26th \$68,000 was transferred. Now where is that shown? A.—That is December, 1904?

Q.—Yes, where is that shown in this bank book of the National Agency Company? A.—There is a cheque here on the 29th of December for \$101,645.20.

Q.—That is a credit, a deposit isn't it? A.—A deposit, yes. Here on the other side there is a cheque issued for \$107,000.

Q.—Just look up and see what that cheque was for? A.—This is 1905 Mr. Tilley.

Q.—Mr. McLaughlin handed it to me and we both thought it was 1904? It is 1904 at the beginning. We have gone through two years, that is all. Here is December. A.—Here is the \$68,000.

Q.—It is shown on December 31st, an item of \$68,000 on the debit side. Where is that credit item just before that on the same day, \$54,615? A.—I find a cheque issued here to the amount of \$48,000, or an amount charged of \$48,000, a credit to the Union Life on December 31st.

Q.—How can that be, it should be 68. There is \$68,000 shown on December 31st, 1904. Now you gave me this morning December 26th, but this is the National Agency Company

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book and the other was from the Union Life book? A.—Yes.

Q.—\$68,000. Then what other cheque do you see the same time or about the same? A.—\$48,000.

Q.—Union Life Company and entered in lead pencil is it? A.—I think it is ink.

Q.—I would think that is lead pencil. A.—However, we have the ledger entry in ink.

Q.—What was it for? A.—It was for the commission paid to the Union Life in accordance with their agreement.

Q.—No, the National Agency does not pay the Union Life commissions? A.—I think according to the contract they do.

Q.—I thought the National Life got commissions from the Union Life of 10 per cent? A.—Yes, but the National Agency undertakes to pay a certain percentage of the expenses.

MR. EVANS: It would be a cheque for the National's share of the Union expenses.

MR. CARRIE: That is right.

Q.—Then do I understand that the National Agency paid to the Union Life on December 31st, 1904, \$112,000? A.—(Mr. Carrie continuing.) That is right.

Q.—Where does that come out in the bank book of the National Agency? I don't see any entries for that either?

MR. KENT: These amounts received should appear in the cash book of the Life Company. Are you using the bank book of the Life Company?

MR. TILLEY: I am asking now for the corresponding entry to this entry of \$48,000, in the bank book. I have not found it yet but I do not wish to say we won't find it. A.—These items are all distributed to the different accounts. You would have to refer to the check book to get the information you are seeking.

Q.—What I want to know is where that \$48,000 cheque is in your bank book regardless of how you distributed it afterwards? A.—It may appear in the bank book as an individual item of \$48,000, but that might have been one, two or three cheques. That is often the case that you distribute the cash. The thing would have to be summed up.

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(W. H. Carrie, ex'd)

Q.—Let us get it in your own way. There is a credit entry when the cheque is issued. Be careful to say what book it is in, so that we will get it down? A.—The National Agency issued a cheque, shown in the stub of the cheque book, to the amount of \$101,615. That was in payment to the Union Life Insurance Company of their share of the commissions, in pursuance of the contract, of \$60,000; \$5,000 on account of a note; they paid for Colonial stock \$26,140; Dominion Permanent Loan \$1,000, a debenture presumably, and \$3,000 stock in the same company; Trusts and Guarantee Company \$1,500; Western Insurance stock \$475; Canadian Savings and Loan Company \$1,000; Alliance Loan Company \$2,500; Electric Developing Company bonds \$1,000. That is all, together with the \$60,000, amounting to \$101,615. They received that money from the Union Life, paid by the Union to the National Agency Company. On the other hand the National Agency pay to the Union \$48,000, giving a cheque to the amount of \$53,615, which appears in the Union Life cheque book at that date.

Q.—Then let us understand what you are making there. You say that the item of \$48,000 which is shown on December 31st, 1904, is accounted for in this way, that the Union Life Company owed to the National Agency Company the \$60,000 and other amounts for bonds, Debentures and so on, making in all \$101,615? A.—That is correct.

Q.—The Union Life did not give to the National Agency a cheque for that amount, but for that amount less the \$48,000 which the National Agency owed to the Union Life? A.—That is correct.

Q.—What was that \$48,000 owed for? A.—That \$48,000 was on account of the National's share of the liability that it held in the agreement for the expenditure, the field expenditure that they were to be responsible for. I believe I am correct in the contract leading that way. However, it is on file and may be read.

Q.—And the \$60,000 was what? A.—The National Agency's share of the commission.

Q.—So that the Union Life owed the National Agency \$60,000 for its 10 per cent, under the agreement whereby the National Agency Company was

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appointed agent, and the National Agency Company owed to the Union Life on the taking of accounts \$48,000 towards expenses that the Union Life had paid which the National Agency Company should pay under the agreement, is that what you mean? A.—That is correct.

Q.—And all these other items of bonds and debentures and so on that are in there for 1904 are included in that adjustment of amounts, leaving the balance? A.—Of \$53,615.

Q.—And that was paid by the Union Life to the National Agency by cheque? A.—By cheque.

Q.—When the National Agency had placed to the credit of the Union Life the money to pay it with in the shape of a premium on stock of \$68,000? A.—Certainly, \$68,000.

Q.—So then on December 31st the transaction went through in that way. In the first place the Agency Company supplies the Life Company with the money necessary to make up what it needs at the end of the year for the Insurance Department? A.—For the protection of its surplus.

Q.—For its annual return? A.—For its surplus. Distinctly for its surplus.

Q.—I will take this from Mr. Evans now. The National Agency Company was paying on that 31st day of December, so that everything would be in order for the annual return which had to be made that day? A.—(Mr. Evans continues.) Yes.

Q.—Then a demand would be made, calling it premium on stock of a sufficient amount to show the capital unimpaired? A.—Yes.

Q.—I suppose in arriving at that \$68,000 you would figure out just what the Union Life needed? A.—Approximately so.

Q.—Exactly so, making it an even call? A.—Yes, you could hardly get it because the valuation of the reserve has to be made before that which would take some time, but we knew approximately what that would be.

Q.—You would consider the situation towards the end of December? A.—Yes.

Q.—And you would come to the conclusion as to what money you would require from the agency Company to be deposited to the credit of the Union Life without any corresponding liability on the part of the Union Life for that money? A.—Yes.

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Q.—You would have that money deposited as premium on capital? A.—Yes.

Q.—And then you would adjust the Agency account under the agreement that the National Agency Company had and then you would take over assets I suppose from the National Agency, that the National Agency had bought during the year? A.—Yes.

Q.—Consisting of stocks and debentures in different companies? A.—Yes.

Q.—Then those would be paid for after the Union Life would be placed in funds? A.—Yes.

Q.—That is the method by which you would get matters in shape so that the stock would be unimpaired at the end of the year? A.—Yes.

(Adjourned to 10.30 on Wednesday the 9th of May, 1906.)

TWENTY-THIRD DAY.

MORNING SESSION.

Toronto, May 9th, 1906.

JUDGE MacTAVISH: Owing partly to other engagements on the part of those interested in the Commission, which it has been difficult to arrange, and partly to the difficulty in arranging for suitable accommodation, as the Court Rooms will all be occupied next week, the Commission, when it adjourns on Friday next, will adjourn until Monday, the 21st instant, at Toronto.

MR. SYMONS: With Your Honors' permission I would like to make an explanation as to the meaning of that resolution regarding dividend number 7, which was referred to yesterday in Mr. Evans' evidence. I framed that resolution and am naturally responsible for the phraseology, and it is a little different from the ordinary form, and for this reason: You remember it provides for the payment of dividends to the shareholders who are on record at the closing of the stock book, ten days before the date of payment, and also are to be credited only from the respective dates of payment of so much of the final call up to the date of the payment of the dividend, or as may be provided by any special agreement relating thereto respectively. That arose in this way:

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at this time, you will remember, as Mr. Evans stated in the evidence, some of the shareholders who were unable to carry their stock, desiring to be relieved of their unpaid-up stock, we were arranging to sell to others and transfer in their behalf, but it occurred to us in protecting our shareholders who had already paid up it was not fair that those transferred shares should carry the full dividend; consequently the certificates that were issued to the transferees at that time on those shares was somewhat in this way: "Dividends declared on this certificate shall not be calculated from an earlier date than". That was put on each certificate and bore the date of the certificate, so that by that means a considerable amount of money was saved to the shareholders. I would like to have that put in as an Exhibit so as to explain the reason for that apparent difference in the resolutions regarding dividends.

As the memo. read by Mr. Symons which was stamped on the certificates referred to, was entered on the notes it was not deemed necessary to file the memorandum.

Examination of Mr. Evans continued:

MR. TILLEY: Does this envelope contain the literature that has been issued by the Union Life Insurance Company? A.—Yes, sir.

Q.—And does it contain all of the literature that has been issued by the company? A.—So far as I know.

Envelope containing literature issued by company marked as Exhibit 104.

MR. TILLEY: Q.—Before proceeding with the examination on the lines we were on yesterday, I would like to have some general explanation of some of the accounts that appear in the books. There is an account in the National Agency book, called Stock Capital, etc. Ledger, at page 71, under the heading of "Tolton & Armstrong." Without going into the details of that I would like to get a general explanation of what that account includes? A.—I do not know what the account is, Mr. Carrie could explain it.

Q.—Surely you would know what that account is; I would rather take it from you for the present? A.—I really do not know.

Q.—Here is an account covering a lot of transactions commencing in

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July, 1903, and continuing for many months; do you know who Tolton & Armstrong are? A.—I think Tolton is a shareholder.

Q.—In your company? A.—Yes, and I think there is some one by the name of Armstrong, but I don't know the account or any of the particulars of it.

Q.—Has Mr. Tolton any position in your company? A.—No.

Q.—Has Mr. Armstrong? A.—No.

Q.—Have they had any dealings with the company that you know of? A.—Other than it may have been the transfers of their shares.

Q.—Transfers of their own shares? A.—Yes.

Q.—Did you ever sell any shares to them? A.—I could not say for sure.

Q.—Have you not any recollection about that? A.—No, I could not remember as to Mr. Tolton or Mr. Armstrong.

Q.—Or whether you ever bought any shares from them? A.—No, I could not say.

Q.—Was their account kept as a sort of clearing-house for stock of the National Agency Company? A.—No, not as far as I know, I never heard of such an account being in existence.

Q.—I see your name is mentioned in it? A.—Probably transfers passing to or from me may have appeared in that account or some other account.

Q.—On tracing some of the entries it appears several entries which should be charged to your account from the entry in the journal are transferred direct into this Tolton & Armstrong account and never passed through your account at all, can you explain that? A.—No.

Q.—Can Mr. Carrie explain what the account is? A.—I should think he could.

Mr. Carrie answers until otherwise indicated.

MR. CARRIE: I might explain about this ledger, this ledger was the original ledger opened for the National Agency Company, it is somewhat limited, as you may see by its size; consequently when the transactions of the National Agency Company became more numerous than what the provisions provided for in this book were there were a great many changes back and forth from the different folios in order to accommodate the different accounts as they occurred. Original-

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ly this Tolton & Armstrong account which you refer to was opened in order to adjust or facilitate a transfer that was going on between Tolton and Armstrong. It was merely a suspense account, which is shown on the head in the margin of the account. Subsequently any other transfers that were going through in like manner were put in underneath that Tolton & Armstrong, the heading was not ruled out, there was no object in changing it, it was suspense account, it would facilitate nothing, it was only placed there as a suspense account. The only intelligent light that could be thrown upon it would be to trace the individual transfers as they occurred, then you would see the object of placing the amount in order to facilitate the transferring of the item—some of the items come direct from the cash book, others of them come from the journal; it is just merely a transfer account for accommodation purposes for the time being, although Mr. Evans' name may appear there, and many others appear in the same way.

Q.—It was a sort of clearing-house account for transfers of National Agency stock? A.—You may call it that. I may say there is a new ledger now in existence which does away with this, it is a more complete and more perfect ledger.

Q.—Where is that ledger? A.—The ledger owing to this present Investigation is not quite completed; we have had considerable work to do in the office, working day and night in order to get the one hundred and one questions prepared that we were called upon to answer, and the work was not completed. However the book can be brought here and exhibited.

Q.—When was the new ledger commenced? A.—It was proposed to commence with the first January, 1906. There are no entries in it but what are carried forward from this as appear in this ledger here; this ledger is quite small and quite inadequate for the purposes of the work of the company.

Q.—This ledger was the only ledger that was in use prior to January first, 1906? A.—Yes.

Q.—Was there any book in use before this one? A.—No ledger that I know of.

Q.—I find some entries here refer back to old folio? A.—That would be an old folio in the same ledger.

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(W. H. Carrie, ex'd)

Q.—Here on page 6 under the head of "Notes received?" A.—That account is just a simple little adjusting account to bring in the bills receivable into it, and adjust them as the credits were entitled to shareholders, and back and forth in order to keep the thing adjusted.

JUDGE MACTAVISH: Repeat your answer please.

A.—That account on page 6 is where the notes are renewed and any credits; the bills receivable were all kept originally, I understand from the one who opened the book were all kept on the one page, and each were debited to one line, there was only one line, and not room, and consequently they were carried into another account and there adjusted and credited and then passed back.

MR. TILLEY: "Notes renewed" on page 6, old folio? A.—You will find by going back to folio 18—

Q.—This is page 6? A.—You have the folio 18.

Q.—Do you say these entries on page 6 follow the entries on page 18? A.—No, that is not an old folio for page 18, or 18 is not the old folio for it.

Q.—What is it? A.—It is a general account opened for the adjustment of accounts and bills receivable.

Q.—What is old folio 18? A.—Old folio in that case has no reference to old folio as I previously stated, in that particular case.

Q.—In that particular case on page 6 it does not refer to page 18 in the same book? A.—No.

Q.—What does it refer to? A.—Let us make ourselves quite clear. These items are all three or four years old.

Q.—And I suppose you will agree with me that it is somewhat hard to follow the transactions in your books, especially for a person who has not lived through the experience of the company? A.—Yes.

Q.—We have had difficulty in tracing them? A.—This bills receivable became somewhat cramped, it was continued on folio 120. Those were the bills receivable renewed in this account (on page 6), in order to make the connection between bills receivable at the end of page 18, and continued to folio 120—more than likely this old folio was put in to draw attention to that account so that it may

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not be lost in the transfer of the accounts back and forth.

Q.—Do you say now that old folio 18 on page 6 does refer to page 18?

A.—It refers to it only in that sense, but not necessarily as being a continuation one to the other.

Q.—Is there no other book prior to that book in existence? A.—No.

Q.—Was there ever any other book? A.—Not that I ever saw.

Q.—How long have you been the book-keeper of the company? A.—Since April, 1902.

Q.—Are you the book-keeper for both the Agency Company and the Insurance Company? A.—I am.

Q.—And have been since April, 1902? A.—Yes.

Q.—And you never knew of any book that preceded that book either of Provisional Directors or of the promoters of the company? A.—None whatever, this is the original book.

MR. LANGMUIR: Is that a memorandum book? A.—It is a stock ledger.

Q.—And the balances are brought in? A.—Yes sir, and a general ledger at the same time.

MR. KENT: I would like to ask whether in that book there are any other entries that have been put to an account to which they did not belong?

MR. TILLEY: I think I can answer that, it is full of them; is not that the case, that other entries besides these transactions you have spoken of with Mr. Evans on his stock, some transfers of his stock might be carried into Tolton & Armstrong's account as a sort of clearing-house account—there are many other entries of the same kind? A.—There may be, in order to adjust the differences.

MR. McLAUGHLIN: The same account? A.—Yes.

MR. TILLEY: What does that apply to; other accounts in the same book? A.—Yes.

Q.—Many other accounts? A.—Quite a number.

MR. KENT: Q.—The accounts may mean anything at all, not what they are supposed to be. An account may have been opened for me, for instance, and a lot of entries charged with which I had no connection? A.—Oh, no, sir; it is only in connection with the transfer where the company may be facilitating the transfer between two of the shareholders, where the transaction may have occurred

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through the company in order to adjust the matters this suspense account was opened in order that they would be put into that account, and then placed to the credit of the individual shareholders, either debited or credited as the case may occur. Just simply a convenience account.

MR. KENT: There should have been a suspense account or a transfer account, instead of which these entries were put as it happens in this particular account? A.—Yes.

Q.—Without having any connection whatever with either Tolton or Armstrong? A.—Yes, suspense is on the top of that account. It was first opened in Tolton & Armstrong, and then accounts being merely along the same line, it was thought convenient to leave it in that account.

MR. McLAUGHLIN: Was Tolton & Armstrong the first transfer? A.—Yes.

MR. TILLEY: Tolton & Armstrong cannot surely be the first transfer, because the first entry in that account is July, 1903? A.—The first transfer for that account.

Q.—I thought Mr. McLaughlin asked you whether that was the first transfer that was made—that was the transfer? A.—It may have been the first transfer; in the first transfer there may have been no cash passed between them at all.

Q.—I see you have a suspense account in the book at page 152? A.—Yes.

Q.—What was the nature of that account? A.—Those are amounts standing to the credits of those individual names you see there who have a certain indebtedness to the company which has not become large enough to liquidate it, and they remain in suspense till their account has been adjusted, the credits remain there. The company have debited themselves, it is liability as appears in their statement, and when the item is sufficient or grown large enough to wipe out the indebtedness that account would be closed.

Q.—Is it carried any place else than in suspense account? A.—No, those are the original entries.

Q.—They are not carried here from any other place? A.—They are carried originally to that ledger from their origin.

Q.—Where is their origin? A.—Their origin may be the cash receipt

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through the cash book, or some cash receipt in some form or other.

Q.—Do you say all the entries in the suspense account must be shown in the journal or cash book? A.—That is right.

Q.—They are all shown that way? A.—Yes.

Q.—Then they are entered here and left standing, the accounts never balance? A.—The accounts are not balanced, the statements have been properly rendered—

Q.—This suspense account has never been balanced? A.—That suspense account is balanced with the ledger.

Q.—It has never been closed up at any time? A.—It is impossible to close the account until sufficient credit has been passed to warrant its being closed.

Q.—Other accounts seem to be left open; take page 260, here is an account of John F. Stair's, never been balanced? A.—You are looking at the stock account; there is no balance to it.

Q.—Is this his account for capital stock? A.—Yes.

Q.—And you say that has never been attempted to be balanced? A.—No, there is no provision in that book. The new book that I have had made makes provision to show the debits and credits of the stock. This book was a preliminary book and it was inadequate to show at a glance the stock held unless the account were worked out, that is to say, let us be quite clear on that, that is to say the shares allotted and the cash passed to his credit, the amount of shares he subscribed for and the cash to his credit; as against that you had to debit that account with any shares transferred away, and the cash also transferred away from his account to the other shareholders; then you arrive at the total amount of shares he held and the capital paid.

Q.—From this account of John F. Stairs, at page 260, tell me the history of his dealings with the capital stock of your company? A.—Just from the closest investigation of that account you can make as it stands there? A.—He subscribed for 100 shares on March 19th, 1902; there has been allotted to him 100 shares, and he has been charged \$10,000.

Q.—That is the first entry? A.—Yes, on the debit side. He is credited with his demand note of \$1,500 and cash \$1,000, on March 15th. On

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November 15th he gave a note for \$2,500.

Q.—What is that note for? A.—That note was for a call on his stock. Subsequently he transfers, I believe, some 50 shares, possibly more—in December of last year we were enabled to effect transfers to the amount of 78 shares—those shares were transferred from his account as shown in the journal, folio 170. He was also credited in order to make his shares fully paid up—that they may be transferred, with these credits that you see here on folio 165, taken from the journal.

Q.—Were those real payments? A.—Those were real transactions.

Q.—I am not asking about transactions, you say he was credited with certain amounts to make his stock fully paid up so that they would be transferred, did he pay anything? A.—Not direct, but the parties who received the stock from him paid for him, and the credits went to his account direct, and those shares were transferred away, and the credits the same way to their individual accounts.

Q.—Who paid the money, did the purchaser of the stock pay it? A.—The purchaser of his shares.

Q.—Paid the money? A.—Paid the money.

Q.—To the National Agency Company? A.—Yes.

Q.—And then do you say the money that these people paid was credited to Stairs? A.—To Stairs' account, so that he could transfer his stock.

Q.—Do you say then the credits that are put in there are actual payments, and that the amounts shown are the precise amounts paid by the purchasers of that stock? A.—They are actual credits, they were called for to be debited to his account, where he was paying stock up himself.

Q.—I cannot understand that; I want to know whether what is credited there is the precise money paid by these purchasers for the stock? A.—Not necessarily, it would depend on the price paid for the stock in purchasing it.

Q.—And then the purchaser would pay what he agreed to pay for the stock, then you would credit to Stairs enough to make his stock fully paid up? A.—Yes.

Q.—Where would the balance of the money that the purchasers paid go? A.—That would go to the other indebtedness of Stairs', the contingent in-

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debtedness, the premium on those shares he subscribed for, to pay that off.

Q.—In this account you have on page 260 you make the indebtedness against him just the amount of the stock? A.—Yes.

Q.—Show me his contingent account? A.—There is his other account on page 287.

Q.—How much was the premium on his stock? A.—Twenty-five.

Q.—How many shares had he? A.—100 originally.

Q.—The premium on his stock would be? A.—A quarter of that.

Q.—How much would that be? A.—\$2,500.

Q.—What does this account show? A.—That is the balance—he had 50 per cent. paid up, there was a balance due 50 per cent., and that is 50 per cent. premium, which is \$1,250.

Q.—The way you enter that is shown on page 287 of this same book? A.—Yes.

Q.—There is no account where he is charged up with the premium before this account? A.—None whatever.

Q.—And then on this page 287 you simply put in an entry, John F. Stairs estate premium on stock \$1,250, no date to it? A.—No, the date possibly was taken from the time the entry was made in the journal.

Q.—There is no date at all? A.—No.

Q.—Then on the credit side— A.—It was December, 1904, the whole thing is dated December, 1904.

Q.—That December, 1904, commences at page 279, and then you have about eight transactions on each page, and it runs to page 290? A.—Yes.

Q.—How is it that all this came in December, 1904? A.—Because they were debited with the premium on their stock.

Q.—Was that the time when the premium was called? A.—The premium was past due at that date.

Q.—And these parties did not want to carry their stock longer, is that the idea? A.—Not these parties, but these parties had not at that time paid up their stock in full.

Q.—And it was a case of forfeit their stock or else re-sell it for them? A.—They were not asked to forfeit their shares, they were dealt with very leniently and given an option to pay it up.

Q.—And they did not pay it up? A.—Any who did not did not.

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Q.—Then the company sold and took the shares of those stockholders? A.—No, the company did not do it; the company made arrangements with its brokers in the field to facilitate for the shareholder to allow him to be relieved of the shares that he was unable to carry and pay for. That broker in the field was in touch with the proper people and negotiated with them. Many times the shareholders wrote direct to the broker.

Q.—Did the company make any profit out of those transactions? A.—None that I know of.

Q.—Did it sustain any loss? A.—None that I know of.

Q.—Did it always get the full amount of the unpaid calls on the stock, or at least unpaid on the stock or the premium? A.—Wherever it was due.

Q.—Did it ever get any more than that? A.—None that I know of. There may have been some transfers received of stock that probably there was no market quotation for, if it was taken at its par face value of the certificate it might have been considered an excess, but I would not like to particularize, because I have no recollection of the individual cases.

MR. TILLEY: We will leave that there just for the present and continue Mr. Evans' examination.

The following answers to the questions are given by Mr. Evans unless otherwise indicated.

Q.—I suppose now Mr. Carrie has spoken of these matters it brings it to your recollection, does it? A.—I had nothing to do with keeping the books.

Q.—But you see now the necessity or the reason for it given by Mr. Carrie? A.—Yes.

Q.—And has he stated the fact when he says that the shares of certain shareholders who were not paying their calls were sold to other parties and then credited with the amount remaining due and the premium provided the purchase realized that amount? A.—Yes.

Q.—Did the company make any profit on those transactions? A.—Not that I know of.

Q.—Did it sustain any loss? A.—Not that I know of.

Q.—You do not know of any case where the company did not realize the full unpaid balance on the shares and the amount of the premium? A.—No, I do not know of a case.

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Q.—Do you know of any where more was received? A.—No.

Q.—Do you know of any case where the purchaser paid more than the amount of the unpaid balance on the stock than the premium? A.—No, I do not.

Q.—They were sold by agents of the National Agency Company? A.—Yes, brokers.

Q.—And do you say that agents of the National Agency Company—they were out trying to sell stock I suppose? A.—Yes.

Q.—And do you say they would sell to certain persons stock belonging to former shareholders at just the unpaid balance on those shares at the same time that they were trying to sell to the other people at a premium of 50 per cent.? A.—I do not think I quite understand your question.

Q.—The agent on making the sale would send in the full amount he got from the purchaser on those shares? A.—Yes.

Q.—Supposing the shares had been 50 per cent. paid, leaving 50 per cent. due on the shares by the old shareholders; now, then, at what price would the agent sell those shares? A.—125 I think.

Q.—And then the purchaser would pay 125 for those shares which were 50 per cent. paid already so far as the company was concerned? A.—Yes.

Q.—Then the agent we will say gets the 125, what does he do with it? A.—It was credited the account of the former shareholder.

Q.—Was the whole amount credited to the account of the former shareholder or not? A.—As much as that shareholder would be entitled to.

Q.—A sufficient amount out of that purchaser's money would be credited to the old shareholder to balance up his indebtedness? A.—Yes.

Q.—Then what would be done with the balance? A.—Pay up the stock so that it could be transferred to the subsequent shareholder.

Q.—You have paid it up already when you took enough out of the purchase money to pay up the balance due on the stock; what is done with the balance of \$125 per share? A.—Simply enough transferred to the former shareholder—he would not sell his stock in full, but only a portion of it—

Q.—So that what you would do you would take from the old shareholder a sufficient number of his shares which at 125 a share would balance up the

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amount that was still due by him on all his shares? A.—Yes.

Q.—Is that the way it was done? A.—Yes, I think I understand you, and I think that is right.

Q.—Did you ever make any profit out of such transactions? A.—Such of my shares as I sold I got 125 for some and perhaps more or less for others, I do not remember the different prices, but certainly the difference between what I paid for them and that would be profit to me.

Q.—What did you pay for your shares? A.—Paid par for them.

Q.—Did you ever pay a premium? A.—I don't think so, I may have paid for some but I don't think so.

Q.—Tell me accurately? A.—Those came in under the original subscription.

Q.—You never paid anything for those at all? A.—I paid par for them.

Q.—The National Agency, you paid par for those? A.—Yes.

Q.—Did you pay par for others you got? A.—Yes.

Q.—Did you ever pay more than par? A.—I don't think so.

Q.—How many shares did you get altogether? A.—I don't remember, I should think about 200 or 250.

Q.—You had about 200 or 250 shares of stock of the National Agency Company? A.—Yes.

Q.—All taken by subscription? A.—Yes.

Q.—And at par? A.—Yes.

Q.—How many shares have you now? A.—I think about 50.

Q.—Then the other 200 shares you have sold? A.—Yes.

Q.—Through the agents of the National Agency Company? A.—Through brokers.

Q.—Do you mean to say they are brokers with offices in Toronto or are canvassing agents? A.—They were travelling brokers working on commission basis exclusively.

Q.—To sell stock only? A.—Yes.

Q.—Or to effect insurance as well? A.—No, to sell stock only.

Q.—Those were agents appointed then by the National Agency Company to sell stock; then you would have these agents sell your stock? A.—Yes, and any other shareholders.

Q.—At that time you were trying to get money for the National Agency Company? A.—Yes.

Q.—And selling the stock was one means? A.—Yes.

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Q.—What price did you realize for your 200 shares? A.—Varying prices.

Q.—What was the lowest price? A.—I could not say, I should say perhaps 115 or 120, I could not give you the exact figures, 125.

Q.—And the highest price? A.—I do not remember any higher than that.

Q.—Some of the company's stock was being sold at 50 per cent. advance? A.—Yes.

Q.—So that your stock you think would vary from a minimum of about 115 to a maximum of 125? A.—Yes.

Q.—Did you subscribe for your 250 shares all at once? A.—No.

Q.—Did you subscribe for all but the shares you got on the incorporation of the company at one time? A.—Some time after that.

Q.—Did you subscribe for them in instalments? A.—I think I made one or two separate subscriptions after the initial.

Q.—Will Mr. Carrie show me the account that shows your subscription for shares and what you subscribed for after the incorporation? A.—Yes.

The answers to the following questions are given by Mr. Carrie until a change is indicated.

Mr. Carrie turns up page 10.

Q.—The first would be an allotment of 96 shares, making \$9,600 of stock? A.—Yes.

Q.—That 96 you originally subscribed for, Mr. Evans? A.—(Mr. Evans continues). A.—Yes.

Q.—When the company was incorporated? A.—Yes.

Q.—How many other shares can you say you have subscribed for directly to the company, give me the dates and amounts each time? A.—Will you figure them up, Mr. Carrie?

MR. CARRIE: Here is July 4th, '02, 64 shares; October 10th, 20 shares, September 4th, 20 shares, October 17th, 2 shares, September 4th, 120 shares.

MR. EVANS: 204 shares.

Q.—Is it 204 or 206, Mr. Evans? A.—206 shares.

Q.—Were those subscribed for in one year, is that all in the same year? A.—Yes, I think so.

MR. CARRIE: Yes, that is right.

Q.—All in the year 1902? (Mr. Evans continues). A.—Yes.

Q.—And the first subscription is July 4th, the next October 10th and the next September 4th, how is it that they are in that order? A.—That is the order in which I subscribed for them.

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Q.—You could not subscribe in July and then in October, and then September, and again later on in October and then another September, you could not subscribe for them in that order? A.—Well, I cannot answer any more than that is the way they appear there.

Q.—What has Mr. Carrie to say about that? (Mr. Carrie answers until a change is indicated). A.—Those were applications made in due order.

Q.—How is it that they are not entered in due order? A.—They are entered in due order.

Q.—How is it that the application for 120 shares on October 10th precedes an application for 20 shares on September 4th? A.—Oh, that may be a clerical error, a matter of book-keeping. It was not put there for any special design to get one in ahead of the other. If you refer to the applications, they are quite clear, there cannot be any doubt about them. There is the proper place to go for the original, not to the stock ledger where it is in the simplest and crudest form it can be. You understand in keeping a stock ledger you have to have several books, one to work with the other, and you cannot put everything into your stock ledger.

Q.—On October 10th you have a subscription for two shares, and later on, but on September 4th apparently, you have a subscription for 120 shares. Have you the journal of the National Agency? A.—Yes.

Q.—Let us have folio 27. A.—This is it.

Q.—Is this, Mr. Carrie, the book of original entry after the stock subscription that would be signed by Mr. Evans? A.—Yes.

Q.—This is the first book it would be entered in? A.—Yes.

Q.—Now we saw on October, 1902, a lot of shares allotted on page 27? A.—Yes.

Q.—Commencing with October 18th, and giving the certificate number on October 18th, 324 is the number of the certificate I suppose? A.—Yes.

Q.—October 17th the number of the certificate is 325. Then it goes on through October, the dates varying, going forward and back, several entries on the 18th, then several on the 20th, and then more on the 18th. A.—Giving the original date of the application. The entries are all made at one time. They were not put through daily as they occurred, but were put through in bulk at that time.

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Q.—How would they get out of order, it does not explain it any better to say that they are all done at once. A.—In placing them in the application book the clerk may not have placed them in order.

Q.—Then let us have the application book and let us see what order they are in there. Find those applications by Owens, Hunter and White commencing at 324.

MR. McLAUGHLIN: They may have all been allotted at one time, and the applications bearing one date.

A.—324, October 18th. I think you will find they are entered according as they are placed in the application book.

MR. McLAUGHLIN: And the date of the application is put opposite each name? A.—Yes.

MR. TILLEY: Then let us see if we understand what this means now. Apparently the application for shares is entered in the journal and the date put opposite is the date of the application itself? (Mr. Evans answers until a change is indicated). A.—Apparently. I don't know sir.

Q.—That seems to be right? A.—I have not looked at the book.

Q.—I thought you were following.

MR. McLAUGHLIN: To save time, you may take what Mr. Carrie says as right. It is understood that he is prompting you. A.—Yes, that is right. He is more familiar with it than I am.

MR. TILLEY: If that is so that would account for the dates in the journal being out of order? A.—I should think so.

Q.—When was that stock allotted that is shown on page 27? A.—I couldn't say.

Q.—Was it ever allotted? A.—Oh yes, I think all the stock was allotted.

Q.—By resolution? A.—Mr. Symons could answer that better than I could.

MR. CARRIE: It was allotted.

Q.—Show me the minute for the allotting of the stock on page 27.

MR. McLAUGHLIN: Here is the allotment.

MR. TILLEY: You produce a resolution of the Executive Committee at page 38 of their minute book on October 20th, 1902, showing the allotment of these shares, and from No. 327 to 335 they are applications of F. G. Hughes, Galt? A.—(Mr. Evans continues) Yes.

Q.—Who was he? A.—He is one of the shareholders.

Q.—A Director? A.—Yes.

Q.—A director and a shareholder? A.—Yes.

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Q.—So that that stock would appear in his account I suppose? A.—I should think so, yes.

Q.—Is he the person who is employed to sell the stock now? A.—Now, but not at that time. Two years afterwards.

Q.—He is spending his whole time at the work now is he? A.—Yes.

Q.—On salary? A.—Yes.

Q.—Of how much? A.—\$3,000 a year.

Q.—And he does nothing but attempt to sell stock of the National Agency Company? A.—Look after the financial end of the company in that respect.

Q.—Then No. 341 is an application of yours for two shares? A.—Yes.

Q.—And No. 351 is another application of yours, and 352 is G. E. Millichamp, who is he? A.—He is also a shareholder and a director.

Q.—And a paid official of the company? A.—Yes.

Q.—As what? A.—Medical director.

MR. CARRIE: Not of the National.

MR. EVANS: Oh no.

Q.—I am talking of the Union Life, that is the company I had in mind although I was not clear about that; that is my mistake. Then No. 351 is an application for yourself of 120 shares? A.—That is the item you saw in the ledger.

Q.—At par under the resolution of 22nd August, 1901, and the application of G. E. Millichamp was for 100 shares at par under resolution of 22nd August, 1901. Now that was the resolution that was referred to yesterday, where you were to be given yours at par? A.—Yes.

Q.—That is the 120 shares on September 4th? A.—Yes.

Q.—Then will you tell me whether those are the shares that you sold for between 115 and 125? A.—Part of them may have been. I don't know how they were distinguished.

Q.—At any rate you had about 200 shares on which you made about \$25 per share? A.—No, there were commissions to be paid out of that.

Q.—To whom? A.—To the broker.

Q.—To the selling agent? A.—Yes.

Q.—What commissions did these selling agents get? A.—About 10 per cent.

Q.—10 per cent. of what? A.—Of the cash transaction.

Q.—Then do you say that if one of your agents sold stock on which 10 per

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cent. was to be paid, that he would only get \$1 for each share? The National Agency Company stock was originally sold with ten per cent. to be paid? A.—No, 25 was the first call.

Q.—Then take the \$25; when he sold a share on which \$25 was to be paid, would he get \$2.50? A.—I think at that time it was \$3 a share.

Q.—Did it ever increase from that? A.—Well, there were various changes made, but it would approximate between 8 and 10 per cent. all the way through.

Q.—Were all agents paid the same? A.—Yes, I think so.

Q.—What was the highest any agent was paid at any time? A.—I don't think any agent was paid more than \$3 a share.

Q.—Was Dr. Hughes paid anything in the way of commissions besides his salary? A.—No.

MR. SYMONS: \$3 a share when 25 per cent. was paid up? A.—Yes.

MR. TILLEY: And when more than that was paid up what did they get? A.—About 10 per cent.

Q.—Can you tell me why this stock was sold to you at par if it could be sold and was being sold on the market at about 125? A.—Because I wanted the stock to hold it as an investment.

Q.—Did you hold it as an investment? A.—No, because subsequently calls were made on it for more than 25 per cent., and it became necessary to sell it.

Q.—When you subscribed for those shares, did you pay the amount of calls then due? A.—I did, part of it. Part note and part cash.

Q.—Bring me the book and tell me what was done in the way of cash at that time?

MR. CARRIE: In July, 25 per cent. was paid on that, a note was given for 25 per cent. Only 25 per cent. was called.

Q.—On that subscription it is shown in the book that you gave a note for it?

MR. EVANS: Yes.

Q.—Tell me when that note was paid? A.—Mr. Carrie could probably tell you.

MR. CARRIE: It was retired at no one time. By instalments.

Q.—Extending from when to when? (Mr. Carrie answer: until a change is indicated). A.—Oh, that note might have been a demand note.

Q.—Not might, just tell me. If your books are so mixed that you can-

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not say, let me know that? A.—It is not stated when that note was due.

Q.—I want you to find out and tell me when and how it was paid? A.—I have not got the Bills Receivable book here.

Q.—We asked for the bills receivable book? A.—Of the Union Life, you asked for.

Q.—We ask now then for the bills receivable and payable books of the National Agency. I thought we had asked for all these books. A.—That was given in July, and become due on October 3rd; it was renewed.

Q.—For the full amount? A.—No, it was again renewed for a new note, to become due on May 6th. It was increased to \$2,000. More shares had been subscribed for apparently. The notes were made for three months, that is my recollection of it.

Q.—I am not asking you when they were made; I am asking you how they were paid, when you got the money? A.—That new note given to come due on May 6th for \$2,000, on folio 40 of the cash book appears a credit for \$250; the same page \$125, and folio 42, \$50. A balance then appears of \$1,575 and a new note was given.

Q.—From whom were those received? A.—From parties to whom the shares were transferred.

Q.—From parties to whom the shares were sold and transferred to? A.—Yes.

Q.—That only makes part of it, go on? A.—A new note was given on September 3rd, amounting to \$3,863.50. That would be for the balance of \$1,575, and for another note possibly, and another note for \$2,288.50, for other stock, possibly a previous note.

Q.—But for stock? A.—Yes. I cannot trace it directly. The bill books might explain any differences.

Q.—It is a pity we had not the bill book here. We can get that, and probably you will make a note to look that up. Let me ask you this, Mr. Carrie, while we are on that subject. The notes that you received from Mr. Evans, were they all for stock in the company? A.—All for stock.

Q.—Or had he any other transaction with the company whereby he gave his note, other than accommodation, if any such were ever given? A.—None whatever that I know of. Any note given was for stock.

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Q.—And was all his stock taken at par? A.—With the exception of some few shares.

Q.—How many? A.—Possibly two or may be four.

Q.—Let us eliminate that, two or four. Then have you told us now of all the stock he got from the company? A.—Yes. Since then he got some other shares.

Q.—I thought you were giving me all he subscribed for? A.—At a certain date you asked for.

MR. KENT: Would it not be convenient if the witness produced a statement showing this \$3,863 note, when it was continued, and how it was eventually paid?

MR. TILLEY: Yes, trace it right through.

A.—We will undertake to do that, but it may take more than an hour.

MR. KENT: If we cannot get it to-day we will to-morrow? A.—Oh yes, the thing will be gotten out sir.

MR. TILLEY: We would like to have it while we are on these points if possible? A.—Now 48 shares were transferred to him. These are transfers, not allotments.

MR. McLAUGHLIN: You were asked whether he got all the stock from the company.

MR. TILLEY: Just say what you were going to say, and then I can carry the examination along so that it will be understood. What were you going to say? A.—On November 18th 48 shares were transferred.

Q.—That is a transfer from another shareholder? A.—Yes.

Q.—That is not quite what I want. I want to know what stock he got directly from the company. A.—Those are the only shares; that we have recited.

Q.—That you have dealt with? A.—Yes.

Q.—Then you say that other note may have been included with the previous 'note? A.—With another note.

Q.—Given for previous shares of stock? A.—Yes.

Q.—I suppose it would be your duty to make all the credits on account of that note, or the notes, if more than one was given? A.—That is quite right.

Q.—From whom did you receive the money to credit on those notes? A.—In each individual case?

Q.—Speak generally, and if there are any exceptions you can say so?

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A.—That would depend on the manner in which the transaction went through the book:

Q.—I have no doubt about that, but answer the question so that we can trace the manner that it went through. From whom did you receive the cash as a general rule? A.—I would receive it probably from the party accepting the shares that were transferred from Mr. Evans.

Q.—Cannot you say that that was so without using the word "probably"? I do not like that style of answering if you have any definite idea of it? A.—You understand there were a number of cases.

Q.—But as a general rule from whom would you receive the money? A.—I would not care to particularize.

Q.—I am not asking you to particularize; I want to know the system under which this was carried through? A.—Possibly—but I won't say possibly—you object to that. I received it on some occasions from Mr. Evans personally, and on other occasions I received it from the party paying for the shares.

Q.—Then you would receive it as a general rule from the person who bought the shares, is that right? A.—It might be.

Q.—Is that the best you can say? A.—Yes, generally that would be the case.

Q.—Is there anything in your books that would indicate the cases where Mr. Evans paid it himself? A.—The cash book.

Q.—Is the cash book here? A.—Yes.

Q.—Can you, when you are making out this historical statement of how that note was dealt with—I wish you would include the payments on the notes, and in each case indicate from whom the payment was received. You can do that? A.—Yes.

Q.—I suppose if the payment came through Mr. Evans himself, that that still might be the money the purchaser paid, only that he paid it to him instead of coming to you through some agent? A.—On the credits of his notes?

Q.—Yes? A.—Of course there were some occasions when I received payments from Mr. Evans that had nothing to do with the transfers. Those occasions I think we will find. There were occasions when he made remittances on a note that had noth-

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ing to do with the present transaction, with transfers.

Q.—In order to make it complete we might have that, and show at the same time what transfers of stock there were, the date Mr. Evans got his stock, and the dates he transferred it? A.—Yes.

Q.—I suppose Mr. Evans got a good deal of stock that he did not get direct from the company? A.—He got shares transferred to him.

Q.—From other shareholders? A.—Through shareholders.

Q.—How many transactions were there of that nature, can you say? A.

—Possibly six. Half a dozen or something like that.

Q.—Can you tell from this book how many shares would come to him in that way? A.—98 shares.

Q.—What are all these other entries on the debit side of his account? A.

—Parties who received shares, or from whom the shares were received.

Q.—A total of 98 shares? A.—Yes.

Q.—I suppose that those shares would be sold. That would be 98 shares he got in that manner; he got 96 on the original subscription, and he got 204 did you say? A.—That is right.

Q.—That is 398 shares Mr. Evans has had, and he has now how many? A.—About 52.

Q.—So that 346 shares have been sold, and I suppose practically all, if not all of them sold through the agents of the National Agency Company? A.—Or acquaintances of Mr. Evans. Most of them would go generally through the agents in the field.

Q.—Who were out trying to sell stock for the company? A.—Yes.

Q.—That is all thank you, Mr. Carrie. Now while we are dealing with that subject, Mr. Evans, I suppose you got considerable profit from those shares? (Mr. Evans answers until a change is indicated). A.—Such profit as resulted from the sale after paying the commission.

Q.—Would you estimate what profit you got on those transactions. It will be verified by the statement put in, but give us now what estimate you have made, on the company's stock for which you subscribed in that way, or got transferred to you, and then the agents of the company selling it and turning in the payment on your note? A.—I should think perhaps \$10 a share altogether.

Q.—Not more than that? A.—I should think so.

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Q.—That would be about \$3,000 profit? A.—Yes, I should think so.

Q.—Are there any other transactions of a similar nature out of which you have made profits? A.—No.

Q.—Not at all? A.—No.

Q.—You have still the stock in the Union Life? A.—Oh yes, omitting that. That could not be considered a profit because that was paid for as consideration for services rendered.

Q.—The original payment was made as a consideration for services rendered, and further payments have been made since, and there is nothing to show the arrangement at all except that the company authorized the payment for your stock? A.—Yes.

Q.—And on the basis of the last statement that the National Agency Company has issued, showing what value the National Agency Company places on its shares in the Union Life, what would you say your 25 shares are worth? A.—Probably worth \$1,000.

Q.—That is how much per share? A.—Well, about \$100 a share. No, 25 shares with ten per cent. paid up, that is \$250. About \$40 a share.

Q.—Do you say that that is on the same basis or valuation that the National Agency Company has put on its shares in its last annual return? I thought it was a good deal more than that? A.—Well, it may have been.

Q.—You know, you have that in your mind. A.—Well, it would be very close to that. I haven't figured it accurately.

Q.—How many shares has the National Agency Company? A.—9,825.

Q.—And what valuation did it put on those shares, for its interest in the Union Life? A.—That can be got from the report there.

Q.—They put \$616,000 almost? A.—Yes.

Q.—On December 31st, 1905. A.—Of course that takes in the value of the business. It is not on the basis of a valuation of the stock held.

Q.—I suppose that if the National Agency Company's interest in the Union Life is worth that amount, that your interest in it as a shareholder for 25 shares would be just in the same proportion as your shares are to the National Agency Company's shares? A.—I should consider so, yes.

Q.—Then what would you say on that basis that your stock is worth there? A.—About \$60 a share, about \$1,500 on that basis.

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Q.—And of course the other six Directors would have a similar asset if that is a proper valuation? A.—Yes.

Q.—Whose shares did Mr. Harvey get to qualify him as a Director? A.—I think Mr. Percy's, but I am not positive.

MR. SYMONS: No, Mr. Vallerand. A.—Mr. Vallerand was it? Mr. Vallerand of Quebec.

MR. TILLEY: Transferred direct to Mr. Harvey by Mr. Vallerand? A. Yes.

Q.—Was anything paid for those shares by Mr. Harvey? A.—I don't think so.

Q.—So Mr. Vallerand made a voluntary transfer to him? A.—Yes.

Q.—Anything paid to Mr. Vallerand? A.—No.

Q.—What other salaries and commissions have you received either from the Union Life or the National Agency? A.—That is in the statement on file here.

Q.—Have you your contract between yourself and the company? A.—It is not here, but we can produce it.

Q.—Then probably we had better leave that until your contract is produced. A.—Shall I bring it this afternoon?

Q.—Yes, if you please.

MR. McLAUGHLIN: I would like you to ask him if the stock in the Union Life has not a peculiar value to the National Agency Company, that it has not to the Directors, or anybody else. I would like that brought out before you go into the question of salaries.

MR. TILLEY: You are going to get your contract? A.—I will bring it this afternoon.

Q.—Would you bring also any contract, shown by correspondence or otherwise with Mr. Symons, Dr. Millichamp, and Dr. Hughes? A.—Yes.

Q.—Now Mr. McLaughlin asks me to ask you whether the stock that the National Agency Company holds has not some peculiar value to that company that your stock has not got to you? A.—Yes, I should think it would.

Q.—Why? A.—By reason of the fact that they control the company. An individual shareholder, his stock is not of as great value to him as to the controlling shareholder.

Q.—Then you say the increased value would be in the idea of control? A.—I should say so, in any company.

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MR. McLAUGHLIN: And what effect the contract with the Agency Company would have upon that.

MR. TILLEY: Mr. McLaughlin seems to be able to think of items of value that you cannot? A.—Perhaps he is more apt than I am.

Q.—Is there anything in the contract that gives it any peculiar value? I cannot follow it myself, but perhaps you can? A.—As agent for the company they certainly derive certain profits.

Q.—That is all estimated in the idea of control? A.—Possibly so.

Q.—That is where control comes in? A.—That might be taken for granted, yes.

MR. McLAUGHLIN: It is not dividends they are expecting, but business.

MR. TILLEY: Dealing with that phase of it, it would almost seem as if there had been a good many safeguards put on this question of control of the National Agency Company, is there not in the by-laws? A.—I cannot recall any at present specially.

Q.—Now you have this book which contains all the proxies given by the shareholders in the National Agency Company? A.—Yes.

Q.—And the form of proxy is as follows: "I the undersigned, one of the shareholders in the National Agency Company, Limited, do hereby appoint Harvey Pollman Evans of Toronto, Secretary, or his nominee, to be my proxy, and in my absence to vote upon or give my assent to any business, matter or thing relating to the said company that may come before or be proposed at any annual or special general meeting of the shareholders of said company, or at any adjournment thereof, in such manner as he, or such nominee may think proper, and I agree to ratify whatsoever my said proxy or his nominee may do in the premises." That is the form of proxy you have always used, is it, Mr. Evans? A.—Yes.

Q.—And does the agent, when he is selling the stock, endeavor to get a proxy? A.—No, I don't think that has ever been done.

Q.—Or is that done afterwards? A.—They are sent out with notices of the annual meeting.

Q.—I see that some of them are printed at the top, "Kindly sign and return in the enclosed envelope." A.

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—That went out with the notice of the annual meeting.

Q.—Others are not so printed? A.—I don't know why they are not.

Q.—Those that are printed with that statement at the top I notice are all dated at the time they were printed, and I suppose would be dated for the annual meeting then coming? A.—No doubt.

Q.—That is to say, not that they are for the meeting that is mentioned in the proxy, but at the end it says, "Witness my hand this 2nd day of April, 1903," or some other date as the case may be? A.—Yes.

Q.—And those that are not printed at the top seem to have the date left blank. Would that or not indicate to you that the agent had those, to get them filled in as he could? A.—No, as a matter of fact the agents never had the proxies. There was a second edition. I don't know why there was any change made.

Q.—Anyway those proxies are all signed to the extent that they are signed here, and I see at page 116 there is this proxy: "I, Harvey Pollman Evans of Toronto, Secretary, do hereby nominate and appoint Harry Symons of Toronto, President, as my substitute, in my absence to vote as my act, and in my place and stead, and carry into effect any and all proxies from shareholders in the above named company, now or at any time held by me, as fully and effectively as if I were present and acting therein, I hereby agreeing to ratify and confirm whatsoever the said Harry Symons may do in and about the premises." A.—I was away just before some annual meeting and I left that for Mr. Symons to act for me.

Q.—It was drawn to cover I suppose any case when you would be away, that is fair to say I suppose is it not? A.—Well my only recollection is that it was for that particular meeting. It says there what it is for.

Q.—Then if you will allow the document to talk untrammelled, it says, "now or at any time held by me." So I suppose it was intended to cover the other? A.—I suppose so.

Q.—Then I see a power of attorney in the same month by Mr. Hughes to Mr. Symons. Mr. Hughes being one of the Directors, was he not? A.—Yes.

Q.—So that the matter appears to be in this shape, that all the shareholders who have given proxies that

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are in this book have given proxies to you, and you have given a proxy under the power that is in this document allowing you to appoint some person to act for you, you have given a proxy to Mr. Symons? A.—In the event of my absence.

Q.—In the event of your absence of course.—A.—Yes.

Q.—Then the number of persons who have given proxies in that way, from a statement I find here, would seem to be 2896? A.—Shares.

Q.—Shares represented in that way? A.—Yes.

Q.—Out of how many shares? A.—I don't know. The total number of shares would be about 4,000. 4,600 I think it is, or 4,650.

Q.—So you have considerably over a half? A.—I don't know when that is

Q.—This is dated March 20th? A.—Well, I suppose so.

Q.—You got these proxies in different years apparently. Do you send a new form to each shareholder the following year, if you have an old proxy from him? A.—I don't think we have always done that. I think we have done so in one or two years, but not always.

Q.—Did you do that in the early or later years? A.—I think the first two years, if I remember rightly.

Q.—That practice has been discontinued? A.—I think so.

Q.—So now where you have a proxy from a shareholder you do not enclose any to him when the annual meeting occurs? A.—No.

Q.—You do enclose proxies still to all the other shareholders? A.—Yes, I think so. I am not sure as to that Mr. Symons sends out the annual notices, and he can probably tell you better than I can.

Q.—Then we will probably get that information from Mr. Symons. I will put in now what has been handed to me as a copy of the by-laws of the National Agency Company. We will check them and see that they are exactly in accordance with the books. (Exhibit 105.) These are the by-laws, you believe, of the National Agency Company as they stand now? A.—Yes.

Q.—The first by-law is as to the annual meeting. The second one is as to special general meetings, and the provision there is that the advertisement shall be published in a daily

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newspaper in Toronto or may be given to each shareholder by prepaid letter mailed to his address ten days before the meeting. "The questions at the meeting shall be decided by a majority vote of those persons present, or by proxy; and scrutineers shall be appointed." Then the Directors are dealt with under No. 5. "The Board of Directors shall consist of not less than 5 or more than 9 members to be elected by ballot, of whom three shall form a quorum; but no person shall be elected to act as Director unless he is a bona fide holder of at least 10 shares of the capital stock of the company on which all calls have been paid." Then the next clause provides that you shall at the first meeting of the Board choose a President and Vice-President and enter into an agreement for the services of a general manager, upon such terms and remuneration and for such length of time as they may see fit, to manage the affairs of the company.

The Board meetings are to be held quarterly I see.

Then after certain provisions as to the payment of salaries, there is an Executive Committee appointed by No. 14. "There shall be a standing Executive Committee to consist of not less than 3 members of the Board who shall be elected annually at the first meeting of the Board held after each annual meeting, or at any subsequent meeting in case of default thereof. Such Executive Committee shall have all the powers of the Board of Directors subject to the direction of such Board, to whom the Executive Committee shall report from time to time. Two members of such Committee shall form a quorum." Who are the members of that Committee? A.—Mr. Symons, Dr. Millichamp, Dr. Hughes and myself.

Q.—It has been increased to four has it? A.—Yes.

Q.—So that you four gentlemen are the members of the Executive Committee? A.—Yes sir.

Q.—And you have all the powers of the Board of Directors? A.—Yes, whatever the by-law provides. There is another now, Mr. McGowan.

Q.—There being five now? A.—Yes.

Q.—And are three a quorum now? A.—You will have to ask Mr. Symons that. I don't know.

Q.—Then the Executive Committee has all the powers of the Board as you understand it? A.—Yes.

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Q.—You can repeal by-laws? A.—You will have to ask the solicitor that.

Q.—Have you ever professed to repeal or alter by-laws of the Company?

A.—I couldn't answer that. Mr. Symons will tell you that.

Q.—We will take that up with him. Then the by-laws provide for calls on the stock, and later on for calls on premium account. Then there are Provisions as to transfers of stock and a stipulation for the payment of a fee in case of more than one certificate, is there not? A.—Yes.

Q.—And if a certificate has been lost you require a payment of \$3 for a new certificate? A.—Yes.

Q.—Why do you do that? A.—I couldn't tell you. I am not familiar with the by-laws.

Q.—Why should not a shareholder have a new certificate for nothing if he has lost his old one? A.—Well, I take it that is for the cost of the preparation of the bond of indemnity which would be required.

Q.—The stock is only transferable on the books of the company is it not? A.—I am not familiar with the by-laws as to that.

Q.—No. 26 is, "Transfer of such shares shall be in such form as may be determined by the Board and shall be valid only when made upon the books of the company by the holder or owner in person or by proxy of attorney duly authenticated and by surrender of the certificates representing the same, all surrendered certificates to be immediately cancelled by the Secretary." If the transfer can only be made on the books, there is no virtue in the certificate? A.—No I suppose not.

Q.—Then why do you require a bond of indemnity? A.—I don't know that it is required. I merely suggest that.

Q.—I notice here that you do. And why do you charge him \$3? A.—I don't know.

Q.—Then No. 28. "No person not a shareholder in good standing shall be present at any meeting of the company, and proxies shall be held only by a shareholder in good standing and are to be deposited with the Secretary at least one month before the holding of any meeting or adjournment thereof at which the same may be used, otherwise the same shall not be operative." Now why do you require shareholders to deposit proxies a month before the meeting? A.—You will have to ask Mr. Symons that.

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Q.—Has not that been discussed?

A.—No, those by-laws were drawn up four years ago by Mr. Symons, I don't know anything about the particulars of them.

Q.—You don't know why a clause is put in preventing a man giving some other shareholder his proxy and being represented at the meeting, if he finds the day before the meeting that he cannot be there? A.—I cannot answer.

Q.—Was it for the purpose of enabling the persons controlling the management of the company to know what persons were giving proxies and how many were being received by certain shareholders? A.—I could not answer that. I don't know the purpose for which it was put in.

Q.—Can you say it was not a means to ascertain whether there was any movement on by the shareholders to voice their sentiments at a meeting? A.—I couldn't answer that. It was drawn up four years ago.

Q.—Then there is the next one. "29. The Board may declare dividends or bonuses at any time they may see fit, of which notice shall be sent to each shareholder at least two days previous to the payment thereof, stating the date and place of payment. The transfer books shall be closed ten days before and remain closed until the day after appointed for payment of dividends or bonuses. All payments shall be made to shareholders only whose names appear as such on record on the books of the company at the time of the closing of the same." That is the provision that the books shall be closed ten days before the dividend is paid? A.—I think so.

Q.—And the object of that would be to ascertain the list? A.—Yes.

Q.—That is a provision that is usual with companies? A.—I think so.

Q.—I suppose you have never considered the validity of such a resolution, to close the books of the company and prevent a person transferring his shares if he wants to? A.—No, I haven't thought of it.

Q.—Then 29 A. "The Directors on declaring any dividend may make a call or calls from time to time on the unpaid up subscribed capital stock of the company equal to the amount of the dividend so declared and that such call or calls be made payable at the same time as the dividend, and such dividend may, if so provided by resolution of the Direc-

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tors, to be advised to the shareholders, be set off against the call and such shareholders shall be credited therewith accordingly." That was an amendment to the by-laws? A.—Yes.

Q.—To provide that you could make a call on the stock and pay a dividend on the stock at the same time? A.—I take it that was to provide that any dividend that was declared should be applied to the payment of a subsequent call.

Q.—To the payment of a previous call wouldn't you say? A.—Yes, possibly, or a coincident call you might say.

Q.—You could not apply it to a subsequent call could you? A.—No, a coincident or previous call.

Q.—To a previous call or a call made at the same time? A.—Yes.

Q.—But the object of the resolution seems to be to enable both these things to be done at the same time. I suppose you could apply it on an overdue call and say to the shareholders "we have credited you with that," so there would be no reason for a by-law for that? A.—Yes.

Q.—What reason was there for this by-law? A.—Any more than to protect the interest of the company so that the amount of the dividend could be applied on the payment of the call.

Q.—You or some one had given the shareholders to understand that only 25 per cent. of their stock would be called at any time? A.—That was the original intention, yes.

Q.—I am not laying that to your door for the present, but I am saying that was the expectation of all parties at any rate? A.—Yes.

Q.—You were calling a great deal more; you were calling it up to par? A.—Yes.

Q.—And this by-law I suppose was passed at that time? A.—I don't remember the date. The minutes will show.

Q.—If you found that you had to call from the shareholders more money than you anticipated, why did you not use the profits of the company instead of paying them out in dividends, why did you not accumulate them? A.—That is a matter of judgment.

Q.—If it is a matter of judgment give me the argument that is in favor of paying out the profits and calling upon the shareholders both at

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the same time, if the shareholders were led to believe they would not be called? A.—The business was in a prosperous condition and we required more money to invest in it for the extension of it.

Q.—Why didn't you hold your profits then? A.—The shareholders regarded it as being entitled to a profit, and as holders of the stock they were liable for the difference between what they had subscribed and what they had paid up.

Q.—But you have already agreed with me that they understood they were not to be called for anything over 25 per cent.? A.—Yes.

Q.—Now then that would be just the same understanding they could have about dividends, they understood they were to get 10 per cent. didn't they? A.—No, I cannot say as to that.

Q.—Cannot you go that far? Surely with the efforts to pay dividends that we have seen in the minutes, you can say that that was because the shareholders were led to expect a 10 per cent. dividend? A.—Possibly that is so.

Q.—Don't say possibly if you know that is the fact? A.—I couldn't say 10 per cent. They were led to expect that they would get a dividend.

Q.—Then do not let us mention the amount. They expected a substantial dividend? A.—Yes.

Q.—From the commencement of the business? A.—I won't say as to from what date.

Q.—At any rate they expected the dividend. Now we have that state of facts. They expected a dividend and they expected not to be called for more money on their stock. Then why not accumulate your profits instead of going through this device of declaring a dividend payable to them and calling upon them at the same time and setting one off against the other? A.—Because no doubt a very large number of the shareholders would prefer to pay up and increase their holdings in the company.

Q.—Wasn't it because you were trying and anxious to sell the stock of the company? A.—I couldn't say that, no.

Q.—Had you in mind that it would be harder to sell the stock if you were not paying dividends? A.—I couldn't say that. I know a large number of the shareholders were able to pay and would prefer to do so.

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Q.—I am asking you if it was not the case that the dividend was paid because it was realized by those in the management of the company that it would be impossible or at any rate very difficult to sell stock if you were not paying the dividend? A.—The matter was never discussed.

Q.—Then paragraph 30 or I suppose it is by-law 30. I suppose each one of these is a by-law? A.—Yes I think so.

Q.—“The stock transfer books of the company shall be closed 10 days before and remain closed until after the holding of any annual or special general meeting of shareholders, or 10 days before the date for holding any adjourned meeting or meetings thereof as the case may be, and no transfer of shares of the capital stock of this company shall be entered in the said books while the same shall be so closed? What is the object of that resolution or by-law? A.—I cannot tell you any more than what it says.

Q.—That by-law was passed on the 13th of February, 1906, or on March the 20th, 1906. It is at page 91 of the minute book and was passed on March 20th, 1906. Now that was just a month ago? A.—Well I think there was some question arose as to what the meaning of that 10 days was; whether it should be ten days before the annual meeting or 10 days before the adjourned meeting and my recollection of it is that the by-law was reconstructed in some way, to make it more clear. Mr. Symons could explain that better than I can, but that is my recollection of the circumstance.

Q.—We will see what the old by-law 30 was. It previously read this way: “The transfer books shall be closed 10 days before and remain closed until after the annual meetings of shareholders.” It is altered to close the books 10 days before and remain closed until after the holding of the annual or any special general meeting or 10 days before the date fixed for any adjourned meeting or meetings. That was the object? A.—Yes.

Q.—Why should the books be closed 10 days before the annual meeting or any of them? A.—I couldn't tell you.

Q.—There seems to be a reason for that in the case of a dividend that does not exist in the case of the annu-

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al meeting? A.—Yes, to prepare a dividend sheet.

Q.—Then why should you pass that resolution? A.—I couldn't tell you.

Q.—I suppose without this resolution the shareholders would be entitled to transfer stock from one to the other right up to the day of the meeting? A.—Yes.

Q.—They could not vote by proxy unless the proxy had been filed 30 days? A.—Yes.

Q.—But they could have joined in transferring their shares to some one person right up to the meeting? A.—I don't quite follow you.

Q.—Under that by-law that we read the shareholders, unless they filed their proxies 30 days before the meeting, they could not be represented at the meeting without personally attending could they? A.—No.

Q.—They would have to file their proxies 30 days before? A.—Yes.

Q.—The moment the 30 days had gone by they could not vote except by attending in person? A.—Yes.

Q.—But they could accomplish the same thing by all transferring their shares to some one shareholder couldn't they and have him vote on all the stock he then held? A.—Yes.

Q.—Was that by-law passed to prevent shareholders acting in concert in that way by a transfer of shares instead of by proxy? A.—I don't remember it being discussed at all. I only remember there was some discussion arose as to what the exact meaning of that first by-law was and it was altered.

Q.—Can you suggest any reason for it except the one I have given? A.—No not at the moment.

Q.—32 reads this way: "Any shareholder desiring to introduce a resolution at any annual or general meeting of the company shall give notice thereof in writing by registered letter addressed to the Secretary of the company in Toronto enclosing the same, at least 3 months before the holding of any such annual or general meeting and in default thereof no such resolution shall be considered." What is the object of that by-law? A.—I don't know any more than is stated there.

Q.—A similar by-law appears in the by-laws of the Union Life I think? A.—Yes, the by-laws are very much the same.

Q.—There are some differences. I think there is some right to exclude

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a Director that is not meeting with general approval in the Union Life. That does not appear here, but there is a great similarity here. Now can you tell me the object of that by-law, that no shareholder can attend the meeting and introduce a resolution to be voted on unless he has notified you by registered letter 3 months before that he is going to do so? A.—I take it that the shareholder would be required to notify the officers of any resolution or matter they wish to bring before the meeting.

Q.—Well, why? You are the Secretary? A.—Yes.

Q.—And you would get that notice? A.—Yes.

Q.—Why should you know 3 months before that a resolution was going to be moved by some shareholder and that the penalty for not giving you that notice is the absolute impossibility on the part of the shareholder to move anything at all? A.—I couldn't answer you any more than I have done. Probably that is some legal matter that can be explained.

Q.—Can you suggest any reason why it should be 3 months? A.—No.

Q.—I suppose the shareholders of the National Agency Company are scattered? A.—Yes.

Q.—From Halifax to Vancouver? A.—Yes.

Q.—Can you say whether the object of that resolution was not to give you timely notice so that you could get proxies? A.—I couldn't say that that was ever discussed. I don't remember that it was.

Q.—Can you say that that was the reason that prompted you to agree to it? A.—I should think, as I said before, it would be so that the Directors would know of any matter that the shareholders wished to bring up.

Q.—Why should the Directors want to know that; what use would they make of that information? A.—So that they could consider it before the meeting took place.

Q.—Three months to consider it? A.—That is what the by-law says.

Q.—Can you suggest any reason why you would require three months to consider any such resolution? A.—No, I cannot, other than I have stated.

Q.—Other than the shareholder giving the notice, there is no provision here that any person should know

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about it except you, the secretary? A.—That is what the by-law says.

Q.—You are not called upon to notify the other officers or the other Directors or the other shareholders, are you? A.—It doesn't appear so.

Q.—Then in the notice calling the meeting, you are not required to notify them of any resolution that the shareholder is bringing up? A.—I don't remember the by-law providing for that.

Q.—I have read those to you. A.—I don't recollect anything.

Q.—There is nothing in the copy produced to me at any rate. So there is the whole situation created by these by-laws. A shareholder must notify you 3 months before that he is going to move some resolution; if he wants to get proxies to give himself a voting power at the meeting, you must know about it 30 days before, and if he does not succeed in doing that he cannot have any share of stock transferred to him unless he does that 10 days before; so that in any case you have at least 10 days' notice of what voting strength any shareholder has who wants to move any resolution? A.—I should say that would be the effect of the by-laws, yes.

Q.—That would give you rather complete power and control over the company would it not? A.—I should not say so necessarily.

Q.—Will you tell me how it could be evaded? A.—The shareholders all have the privilege of revoking their proxies at any time, and taking entirely different action.

Q.—That is thirty days before? A.—Yes.

Q.—So the shareholders could get together thirty days before? A.—I should think so, yes.

Q.—And you see the number of shareholders that are represented by those proxies, and the company has agents, and you have agents all over trying to sell this stock who can get proxies themselves? A.—No, excuse me, we have only had about one or two men out altogether. The regular agents of the company have nothing whatsoever to do with selling stock.

Q.—Will you agree with this, that these persons who are out selling stock are persons who would be in touch with you more than any person else? A.—Yes.

Q.—And they would be the persons who would know the shareholders? A.—Yes.

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Q.—And would be the persons who would be likely to get their proxies if any person could? A.—Yes. I would like to say here I don't think an agent has brought in five proxies since the company has commenced business.

Q.—There has never been any occasion to act on this? A.—There has been no effort to obtain them through the use of agents.

Q.—You have never required to, you have in this book proxies for over half the shareholders now? A.—Yes.

Q.—And they are just standing there? A.—Yes.

Q.—And there has never been any proxy sent in thirty days before the meeting that shows any counter attack at all on the management? A.—No.

Q.—So there has never been the slightest need to drum up proxies has there? A.—No.

Q.—But if the occasion arose are you not pretty well entrenched by these by-laws? A.—To the effect as you said a minute ago that we would have about ten days' notice.

Q.—And I suppose you cannot suggest any reason for the passing of these by-laws except for that purpose? A.—I should think so, yes.

Q.—What reason? A.—That the officers would know what action was likely to be or wished to be taken by the shareholders.

Q.—For what purpose? A.—So that they could decide on a course of action.

Q.—That is what I am pointing out. If it is for any other purpose than to regulate control why should you not require to communicate all such matters to the body of shareholders, they have as much right to consider the matter as you have? A.—That would be rather a voluminous way of getting at things when there is an annual meeting at which it could be discussed.

Q.—It is rather a roundabout fashion to require three months' notice. Why not carry out the circle?

(Mr. McLaughlin remarks something to Mr. Tilley. Not audible at reporter's desk.)

Q.—I think my learned friend Mr. McLaughlin did not draw the by-laws? A.—No.

Q.—He does not know what motives prompted you? A.—No.

Q.—And you can speak better than he can about that? A.—I should

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think so, but I did not draw them either.

Q.—But you were the party promoting the company? A.—I was interested in it. The by-laws were drawn after the promotion was completed.

JUDGE McTAVISH: Were you at the passing of the by-laws, Mr. Evans? A.—Oh yes, I was at the meetings.

MR. TILLEY: These matters would all be discussed? A.—I don't remember what the individual by-laws were. They were drawn by the solicitor and passed at the annual meeting.

MR. McLAUGHLIN: One would think the by-laws were a matter of domestic concern of the company. The shareholders can pass such by-laws as they are disposed to do.

MR. SHEPLEY: We are past all that three days ago.

MR. TILLEY: No. 33 provides that the Executive Committee may appoint local or provincial Boards and may change the same at their discretion, and provide for the remuneration of such Boards. Such Boards to be subject to the direction of the Executive Committee in every respect. When was that by-law passed? A.—Probably at the first.

Q.—I don't think so. A.—Perhaps it came up shortly after the organization of the Union Life.

Q.—Yes, it is one of the original by-laws, passed on the 22nd of August, 1901. That would be the first general meeting of the shareholders would it not? A.—Yes.

Q.—What local or provincial Boards had been appointed pursuant to that resolution? A.—One, the Maritime Board.

Q.—Had you that Board in view when the National Agency Company was organized? A.—I don't think so.

Q.—Had you not got many subscriptions or promises of subscriptions from the Maritime provinces on the understanding that there was to be a Maritime Board? A.—Not at that time. Some time after that.

Q.—What was the occasion of creating this Maritime Board? A.—So as to influence business down in the Maritime provinces.

Q.—So as to obtain business, and was there remuneration of the members of it? A.—\$5 a meeting.

Q.—Fixed by the Executive Committee? A.—The by-laws speak as to that.

Q.—This provides that the Executive Committee shall fix that remuneration? A.—Yes.

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Q.—And, "such Board shall be subject to the direction of the Executive Committee in every respect?" A.—Yes.

Q.—Then by-law 34 provides for the increase of the capital, first from \$100,000 to \$500,000. Was that increase of capital made necessary by the incorporation of the Union Life Company? A.—I think that took place just before, but I am not positive.

Q.—It was with that in view I mean, was it? A.—I should think so.

Q.—You thought you would require additional capital? A.—Yes.

Q.—And you thought that if you got \$500,000 of capital, 5,000 shares of \$100 each, and called 25 per cent., that that would be sufficient to establish this business on a paying basis? A.—To the extent that we at that time contemplated it.

Q.—I am asking you whether you thought that would be sufficient to establish the business on a paying basis? A.—Well, this is a large country and we had not thought of going over the entire country perhaps at that time, but subsequently decided to open up throughout the country, and necessarily required more capital.

Q.—Then do you mean to say that the expenses of establishing the business here is greater than what you had anticipated it would be? A.—Yes, on account of the larger operations.

Q.—On account of the, not the volume of business, but the larger territory? A.—Both, the volume caused by the larger territory being worked, operated.

Q.—Why does the larger territory entail a larger cost? A.—Because we employ more agents, more superintendents, more managers, and require more offices.

Q.—Do you employ local agents to do the canvassing for insurance, or send them from the head office? A.—No, all local agents.

Q.—And then your transactions with the local agent would be by correspondence? A.—Yes.

Q.—Then where would the additional cost come in? A.—They are all supervised by District managers.

Q.—Is that the only additional cost? A.—In larger districts we have superintendents working under the managers.

Q.—Just describe the territory where you can show the expense that you had not anticipated, in the most

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pointed way? A.—At that time we had not opened business in the city of Montreal. The organization in Montreal at present requires a large office, a manager, ten superintendents, and about between 50 or 60 agents, and that involves a large amount of money each week or month.

Q.—Is that the instance you want to refer to? A.—That is an instance, yes.

Q.—At the time you left the North American Life you were only doing business in Toronto? A.—Yes.

Q.—And it was because you were circumscribed as to territory in that way that you thought it better to leave the North American Life and start out yourselves? A.—Yes.

Q.—Then you had it in mind at that time to start in Montreal, that would be the very next place? A.—No, at that time we simply intended to extend around Toronto, the smaller places such as Brantford and Hamilton.

Q.—Do you mean to say that you hadn't it in mind when you broke away from the North American Life, that you did not intend to open business in Montreal? A.—We ultimately intended to open in such places.

Q.—But you intended it before you formed the Union Life? A.—Oh yes, I thought you were going back to a date previous to that.

Q.—No, I am asking you whether you anticipated at that time that by having the increased capital this by-law gives you, of \$500,000, and made a call of 25 per cent. on it, that that would be sufficient to establish your business on a paying basis? A.—When we first started in Montreal we had a manager, one superintendent, and about seven or eight agents.

Q.—You intended to grow there? A.—Yes.

Q.—Now at that time did you anticipate that you would be able to put the business on a paying basis with this capital and that call of 25 per cent? A.—I couldn't say directly as to that. It would depend sometimes on the views we had of the extent to which we were going to expand.

Q.—You told me already that the shareholders anticipated they were only going to be called on for 25 per cent? A.—Yes.

Q.—How could they anticipate that if you did not lead them to believe that was all the money you would need? A.—We probably did not fore-

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see the limit of the expansion that we afterwards took up.

Q.—What is the example you can give me of expansion entailing large additional cost that you did not contemplate at that time? The expansion of your Montreal office would give a large profit? A.—Yes, but you cannot expect in a month to make enough out of the district to pay for putting on another manager and agents.

Q.—In this kind of business it takes a very long time? A.—Yes, a very long time.

Q.—But you anticipated at any rate expansion in Montreal? A.—Yes.

Q.—So that that seems to be eliminated? A.—Yes.

Q.—Can you point to any other district or place in Canada? A.—Quebec, Hamilton, Halifax.

Q.—These were all places that you would naturally intend to establish agencies in when you got the Union Life? A.—Yes.

Q.—When you established the Union Life? A.—Yes.

Q.—The idea was to branch out and cover Canada? A.—Yes.

Q.—Did you anticipate that you were providing enough money then at that time? A.—For a limited business.

Q.—Was it a limited business you then had in mind? I want you to speak of that with regard to the literature you issued at the time? A.—Yes, we thought that we could cover the ground sufficiently thoroughly to make it pay the company to do so.

Q.—And you intended to have your agencies from one end of Canada to the other in different places which would pay ultimately? A.—Yes.

Q.—And you thought you had provided enough money at that time? A.—Yes.

Q.—But it turns out that you did not? A.—It turns out that we did not, because we did a larger business, and required the investment of more capital.

Q.—Then by-law 35, authorizing change of name, not acted upon. The name was never changed? A.—No.

Q.—Then by-law 36 is headed, "Investments, life insurance." "The Directors of this Company are hereby authorized to use its funds in the purchase of or by way of loan on the stock of any life insurance company." That is the by-law that was passed in order

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that you might incorporate or take an interest in the Union Life Insurance Company? A.—Yes.

Q.—That was then in your plans? A.—Yes.

Q.—37 is a subsequent by-law of the same kind relating to Accident Insurance Companies? A.—Yes.

Q.—Has that by-law ever been acted on? A.—No.

Q.—Have you not incorporated an Accident Insurance Company? A.—No.

Q.—I thought you incorporated another company? A.—No, we incorporated no accident company at all.

Q.—Was it a trust company? A.—I think we did get a charter for a trust company, but I am not sure as to that.—Yes, I think we did, I am almost positive we did. I know we applied for it.

Q.—You know that you did? A.—I don't remember positively whether the charter was issued. I know we applied for it. Mr. Symons could tell you more particularly about that. I know we made application to Parliament for it, but nothing was ever done about it.

Q.—Here is by-law 38, and I suppose you did that under this by-law. "The Directors of this Company are hereby authorized to use its funds on its sole behalf in the purchase of or by way of loan upon the stock or debentures of any trust, loan, steel, gas, coal, or electric company, or any bank. A.—It was probably under that by-law the application was made.

Q.—Have you applied for and obtained a charter for the Consolidated Trust Company? A.—I think that was the name.

Q.—What was the force of the "Consolidated" name? Had you anything in view at that time? A.—No, I don't think we had. It seemed a good name.

Q.—"Solid" was the part of the name that attracted you I suppose. Then by-law 39 was passed to authorize the issue of debentures for any amount that might be thought advisable. No such debenture to be for a less sum than \$100, and to hypothecate the debentures. No. 40 provides for the signing of promissory notes and bills of exchange. What promissory notes would a life insurance agent have to sign? A.—For the purpose of raising money at the bank, or anything of that sort.

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Q.—That was the object of it? A.—Yes.

Q.—By-law 41 provides for the forfeiture of shares. That was a by-law passed subsequently was it not? A.—I don't remember the date. We will find it in the minutes.

Q.—I think that by-law was passed at a later date, and I suppose at a time when shareholders were falling in arrear on the calls? A.—Yes, I think that would be the occasion.

Q.—There was a specific need for that sort of by-law? A.—Yes.

Q.—I think I have read it in some place in your minutes that 40 per cent. of your shareholders were defaulting? A.—Were unable to pay all of the calls, yes.

Q.—And then this forfeiture clause was inserted in order to forfeit the shares. Was it ever acted on? A.—I don't think any share was ever forfeited.

MR. SYMONS: No, it was never acted on.

MR. TILLEY: Was notice of forfeiture ever sent to any shareholders? A.—I don't think so.

Q.—But you commenced adopting the means of selling some of the shareholders' stock through your agents so as to pay up the amount that would be due on the other shares? A.—Yes.

Q.—And you say that no profit ever accrued to you by any such transactions directly or indirectly? A.—No.

Q.—Or any other Director that you know of? A.—Not that I am aware of.

Q.—Then the by-law provides for the manner in which the forfeiture shall be created. Then you had this by-law, No. 49. "The company shall have a first and paramount lien upon all the shares registered in the name of each shareholder, whether solely or jointly with others, for his debts, liabilities and engagements of any kind, whether solely or jointly with any other person to or with the company"—there must be some mistake there—"whether the period for the payment, fulfilment, or discharge thereof shall have actually arrived or not, and such lien shall extend to such dividends or bonuses of any description from time to time declared in respect of such shares, unless otherwise agreed by the company in writing. The registration of a transfer of shares shall not operate as a waiver of the

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company's lien or claim herein, or in any way arising from such share." And then 50 provides for the method of enforcing the lien by notice and sale, and the net proceeds shall be applied towards satisfaction of the debts and the purchaser of the shares shall not be bound to see to the regularity of the proceedings or to the application of the purchase money, and after his name shall be entered in the register the validity of the shares shall not be impeached. Now that is rather an exceptional clause is it not, in by-laws? A.—I couldn't say.

Q.—Did you ever see one before? A.—No.

Q.—It provides that the shareholders' stock shall be liable for and charged with every liability that the holder of the shares owes to the company, whether the debt is due or not? A.—Well, I think that was intended to provide that in the event of a call being made, and not being paid.

Q.—Could you let me have the original by-law, and let us see what was happening at that time. It appears that that by-law was passed on February 9th, 1904, sanctioned by the shareholders on that date? A.—Yes.

Q.—And it was sanctioned along with by-laws 41 to 58 inclusive? A.—Yes.

Q.—And they appear in the shareholders' minute book at pages 50 to 54, do they not? A.—Yes.

Q.—Those by-laws all seem to relate to the company's right to forfeit stock, and enforce payment of debts due by shareholders? A.—Yes.

Q.—Then I suppose it is fair to say that it was about February, 1904, when trouble commenced to become acute with your shareholders, or it was then acute with your shareholders not paying the calls that had been made? A.—Yes, probably there had been a greater accumulation of them at that time, of those unable to pay, than there had been at a previous date.

Q.—One can understand by-law 49 providing for forfeiture if calls are not paid. That stands complete in itself, and you can work out the company's rights under it for non-payment of calls, but why would you require this other by-law 49 providing for a lien on stock for all the shareholders' debts, liabilities and engagements, and also providing that even if he should transfer his stock to another person and that should be

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entered up and the transfer complete, that your lien would still attach to the shares and be a liability against the shares in the hands of the transferee? A.—That was to protect the company. I don't remember it.

Q.—That seems to be a very hard by-law against the shareholder on the surface? A.—Probably to protect the company from loss as against the original shareholder.

Q.—One would think it had regard to some particular trouble that had arisen.

MR. SYMONS: I should like to make an explanation about that, Mr. Chairman. The object was this: many of the shareholders had paid up their calls in the shape of notes which were held by the company, and paid-up stock certificates for the shares had been issued. Consequently the taking of the note relieved those shares of the lien, so in order to make it clear that the shares, notwithstanding the stock certificates had been issued, should be subject to the payment of those notes, those by-laws were so passed. I might say too, if you will allow me, that it was quite accidental those certificates having been issued in that way. It did not come to my notice, although I had signed them in blank, and I thought as a matter of protection that had better go in. Subsequently those certificates were allowed to go out for paid-up stock where notes only had been taken for the calls.

MR. TILLEY: Then I suppose you have no recollection that enables you to speak about it one way or the other, Mr. Evans, from what you have said, you agree with Mr. Symons' statement? A.—Yes, I would distinctly.

Q.—That notes had been taken for payments on stock, and certificates had been issued for fully paid shares, and then you passed this by-law which gave the company a lien on the shares in his hands, although the certificate said fully-paid, and that lien you provided by the by-law should attach even though you should allow a transfer of the shares to be made in the books of the company? A.—Yes.

Q.—So that any person taking a transfer and buying those shares which appear to be paid up, and having a transfer made to himself in the books of your company, might still

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have to forfeit the shares or pay the promissory notes given by the former shareholder, if this by-law was valid? A.—Yes, I think there were only two or three cases of that kind.

Q.—Can you tell me whether any such cases were acted on?

MR. SYMONS: No, there were none. There were no question arose. (Adjourned to 2 p.m.)

—Resumed at 2 p.m. 1906.

—Examination of Mr. Evans continued:

MR. TILLEY: Q.—Has any stock dividend ever been issued by the National Agency Company under by-law 37? A.—No.

Q.—And by-law 56 provides “That the Board of Directors may from time to time in its discretion,” etc. (Reads down to the words “hereafter acquired”—do you remember the necessity of that by-law? A.—No doubt to raise money.

Q.—To raise money by the National Agency Company? A.—Yes, so that they could utilize the securities for that purpose, including the Union Life stock.

Q.—From what source would the National Agency Company raise money? A.—From the bank.

Q.—And had there been transactions with the Union Bank from time to time of that nature? A.—Yes.

Q.—Have you any book that shows your transactions with the bank? A.—I think so. Mr. Carrie will have that.

Q.—What book have you showing your transactions with the bank, Mr. Carrie?

—Mr. Carrie answers the questions until a change is indicated.

A.—Such as call loans, advances—

MR. TILLEY: Yes? A.—This general ledger.

Q.—Being the stock ledger that is now superseded? A.—Yes.

Q.—At what page? A.—35.

Q.—Have you any account, Mr. Carrie, where you show moneys deposited in the bank and withdrawn from the bank? A.—Any account in the ledger?

Q.—Yes? A.—No, that banking account was not kept, it was kept on the stub of the cheque book which is quite a practice. We have the bank books to show our balances and all our deposits and withdrawals.

Q.—There is no book where you show that, but you do preserve the stubs of the cheque book, and that

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affords a history of the bank account? A.—The bank account is kept on the stub of the cheque book, that is the balance was kept there.

Q.—Was that what you were referring to yesterday when you said the transactions which were grouped together in order to bring a cheque at the end of the year from one company to another, that all those items, debit and credit, would be set out on the stub of the cheque book? A.—No—with reference to a final cheque given at the end of the year?

Q.—Yes? A.—I referred to the stub of the cheque book being the particulars of why the cheque was drawn, and it was not any reference to the balance of the account whatever; it would of course affect the balance by the amount of the cheque issued.

Q.—You are not understanding what I am asking, Mr. Carrie; you remember the cheque that was referred to was a cheque for a balance as between certain sums the Union Life owed the National Agency Company, and certain others the Agency Company owed the Union Life, and certain purchase of securities by one from the other; all the details of that would be shown on the stub? A.—Yes.

Q.—Showing the balance the cheque was issued for? A.—Yes, how it was arrived at.

Q.—Is the cheque book here? A.—We have a large number of cheque books, they are not present, if you wish them we will have them sent for. Pardon me, what I showed you yesterday is the cash book of the National Agency Company, it is just the replica of what would appear here in the stub of the cheque book—you remember we figured those all out.

Q.—Then there is a provision under by-law 58 for the acquisition by the National Agency Company of certain real estate. It says, “The Board of Directors may enter into contracts,” etc. (Reads down to the words “This company”).

—Mr. Evans answers the questions until a change is indicated.

A.—Yes.

Q.—Pursuant to that by-law did you purchase any real estate? A.—Two years ago we purchased the building where we are situated now, 54 Adelaide Street East.

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Q.—Is that the building that was afterwards turned over to the Union Life Company? A.—Yes, that is the one.

Q.—From whom did you purchase the building? A.—Mr. Dorenwend, I think was the owner at that time; he had I think acquired it from the Toronto Mortgage Company.

Q.—Who was Mr. Dorenwend? A.—I think he has a hair store on Yonge street.

Q.—He has nothing to do with your company? A.—No.

Q.—He bought it from the Toronto Mortgage Company and you purchased it from him? A.—Yes.

Q.—What consideration did the National Agency Company pay for that building? A.—I think it was six or seven thousand dollars; Mr. Carrie can give you the exact figures; subject to a mortgage.

Q.—Probably Mr. Carrie will turn up the amount—Six or seven thousand dollars over and above the mortgage? A.—Yes.

Q.—And then did you afterwards pay off the mortgage? A.—No, not all. We have made the payments which were called for by the mortgage, which Mr. Dorenwend had on it, we assumed the mortgage and made the payments he should have made subsequently.

Q.—Ultimately it was turned over to the Union Life? A.—Yes.

Q.—At a substantial profit? A.—The total increase was about \$8,000 after we had put on about seven or eight thousand dollars on the building.

Q.—Which would be a profit, to the National Agency Company or from the Union Life? A.—Yes.

Q.—Was that property freehold property or leasehold? A.—Leasehold.

Q.—So that all the asset that the National Agency Company had in the property was the lease and the value of the building in case the lease was not renewed—was it a renewable lease? A.—Yes, renewable lease, 21 years.

Q.—And I suppose if the landlord refused to renew he had to pay for the value of the building? A.—I do not remember the provisions as to that.

Q.—You understood the building was yours? A.—Yes, I might say in connection with that transfer that at the same time there were a number of securities handed over to the Union

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Life which the National Agency Company had purchased at a higher rate than we sold them to the Union Life for. The net profit on the whole transaction, the amount that we reduced the securities by, and the amount that we added to the building, I think there was only about \$200 difference net profit to the National Agency.

Q.—You are referring now to some security such as the Colonial Investment stock and the Dominion Permanent stock? A.—Yes.

Q.—Those were stocks that you transferred to the Union Life? A.—Yes; I just wish to make the explanation though.

Q.—You say there was a loss on those stocks to the National Agency, and there was a gain to the National Agency on the real estate transactions? A.—Yes, the net profit was about \$200.

Q.—If there is any dispute on this point I will not take it up now, but you did not transfer those stocks to the Union Life at any less than their market value—you say there was a loss to the National Agency Company on those stocks? A.—Yes.

Q.—That means you had written down the stocks before you transferred them to the Union Life? A.—Yes.

Q.—They were transferred to the Union Life at their full value on the market? A.—Yes.

Q.—So that there was no corresponding profit to the Union Life to offset any extra payment it made to you on the real estate? A.—No, it came into our books at the same price and remained there.

Q.—That is a question as to these stocks and securities that arises on the annual statement of the National Agency for 1905? A.—The Union Life.

Q.—Both companies as a matter of fact? A.—Yes.

Q.—And for that reason I do not want to take it up here; but the real estate did show a profit to the National Agency? A.—Yes.

Q.—If Mr. Carrie will let us have the account for that we can dispose of it; through what broker or real estate agent did you make the purchase on behalf of the National Agency? A.—Mr. Nesbitt; he had an office on Adelaide Street.

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Q.—Have you the account there, Mr. Carrie? A.—Yes.

MR. TILLEY: "Real estate, head office building," on page 116—it was Dorenwend you bought the property from?

MR. EVANS: Yes.

MR. TILLEY: It was purchased in 1904? A.—Yes.

MR. TILLEY: The National Agency Company paid how much for it?

—The questions are answered by Mr. Carrie until a change is indicated.

A.—They made an initial payment to Dorenwend of \$2,347.26.

Q.—In August and September, 1904?

A.—Yes. There was a first and second mortgage I believe, and on this first mortgage a further payment before December 31st, 1905, \$750, was paid, and another payment on September 14th of \$1,375 paid. The items appearing in the ledger are just the items that pass through the cash book. It does not show the agreement. It shows the actual cash.

Q.—Read the entries that show the payments made on account of the building by the National Agency—the first we have is \$2,347.26? A.—You must understand to commence with there were considerable alterations to the building.

Q.—Let us have the purchase payments? A.—\$4,472.26.

Q.—The National Agency paid including the initial payment to Dorenwend, of \$4,472.26, that is to Dorenwend and the mortgagee? A.—Yes.

Q.—During the time they held it? A.—Yes.

Q.—What other payments did the National Agency Company pay that should be charged up to the property? A.—\$11,521.34.

Q.—And this last item was for expenditure in what way? A.—In the alteration and general improvement of the building.

JUDGE MAC TAVISH: That is in addition to the \$4,472.26? A.—Yes.

Q.—Making the total payment chargeable to the property of how much money? A.—\$15,993.60.

MR. EVANS: To which must be added the mortgage.

MR. TILLEY: You did not pay any more than that on the mortgage?

MR. EVANS: No.

MR. TILLEY: At what price was this property put into the Union Life.

—The questions are answered by Mr. Carrie until otherwise indicated.

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A.—\$23,825, I believe the original figures estimated at, there is a difference of \$300.

Q.—Your books show the cash received to be \$24,125? A.—Yes. The original amount figured on for the purpose amounted to \$23,825, a difference of \$300.

Q.—Due to what? A.—The National Agency undertook to sell, assumed it was selling to the Union Life a debenture to the amount of \$200, and we also thought other stocks amounting to \$100 more than what they estimated the actual stock was worth, that is their ledger value; it was adjusted by increasing the amount to the value of the building, \$300 was added to the value of the building in order to adjust the transaction in order that it might go through. It was estimated on and cheque drawn and it was afterwards discovered that those bonds were already due and paid and could not be transferred to the Union Life.

Q.—In connection with the transfer of the building there was a transfer of some stocks and bonds? A.—Yes.

Q.—And one bond for \$200— A.—And a difference of \$100.

Q.—And \$100 for some stock? A.—It was not transferable.

Q.—The bond being in what company? A.—The bond being already redeemed, that day or the day or so before. An adjustment was made by charging the difference to the value of the building.

Q.—The \$300 was something the National Agency Company contracted to deliver, but could not deliver to the Union Life?

MR. EVANS: I think it was this, I think a small debenture of \$200 came due on the last day of the year, and we did not know at the time when we agreed to sell it for the \$23,825 that that debenture came due on that date but as it came due on the 31st December, as we subsequently found, we could not transfer it.

MR. TILLEY: You could not transfer it from the Agency Company to the Insurance Company? A.—No, because it fell due on that day to be redeemed by the company which issued it, and that difference was charged up to the building.

MR. CARRIE: That is correct.

—Mr. Evans answers the questions until a change is indicated.

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MR. TILLEY: Q.—So that cheque which had been issued and made out, being for a certain, definite amount, you just made the price of the building \$300 more than you otherwise would have? A.—I think that was the transaction.

Q.—That shows a pretty free and easy way of keeping accounts between the two companies? A.—We thought the value of the building was very moderate, and we thought it was well worth that much more.

Q.—You were taking a profit to the National Agency Company of \$8,000 in round figures over and above everything the Agency Company had paid out? A.—Yes.

Q.—Does that include interest? A.—I cannot say as to that.

Q.—Apparently there is no interest computed.

MR. CARRIE: No, no interest computed.

MR. EVANS: The building had been bought nearly two years before and the street had greatly increased in value owing to improvements on the street.

MR. TILLEY: And so you agreed to transfer the building at a certain price, and you just increased the amount afterwards in the books to offset some other item that could not be carried through? A.—Yes, that was the transaction as I recollect it.

Q.—That was done in that way, I suppose, simply because the accounts between the two companies are always treated just in that way, that the National Agency Company is the owner of the Union Life? A.—No, we could not make any more transfers of anything else at the end of the year, because the statement was made up on the 31st December, and we had to adjust it in some way.

Q.—Why could not you make any adjustment after that date? A.—We could not pay another cheque to bring it into that year's transaction.

Q.—You could not show it as a liability after that date of the Union Life to the National Agency? A.—Yes, we could have done that.

MR. KENT: You could have drawn a cheque to reimburse the Union Life, \$300? A.—We thought that was the most convenient way to do it.

MR. TILLEY: As between those two companies \$300 was not worth bothering about?

MR. CARRIE: Pardon me, it was not altogether—

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MR. TILLEY: I do not know where I am to be with two ready to give excuses. I think I will take Mr. Evans.

Q.—Your recollection is just in that way, that the \$300 was really not worth bothering about between the two companies considering their relationship one to another? A.—(Mr. Evans) No, the fact was we thought the building was worth considerably more than we transferred it at.

Q.—You thought it was well worth that price? A.—Yes, and a valuation made of it would bear that out.

Q.—How long had the National Agency Company held it? A.—I think since 1904.

Q.—Why did not the Union Life buy it instead of the National Agency? A.—I could not say.

Q.—Was that considered? A.—Not at that time.

Q.—If it was to be held by the National Life Company why was not the Union Life Company's funds used to buy it and transfer it direct to the Union Life? A.—The National Agency were probably in better condition to invest their funds in the building at that time than the Union Life, we needed the money to extend our business.

Q.—It was bought in the month of September, 1904? A.—Yes.

Q.—That was the year when a very large sum of money was paid by the Agency Company to the Union Life at the end of the year? A.—Yes.

Q.—Why did it not pay what it owed in the summer of 1904 and let the Union Life buy the building at cost? A.—Because the money was simply paid to the Union Life as the Union Life required it on premium account during the year.

Q.—I think we got that far the other day that the National Agency Company always put up the money when the Union Life wanted to spend it? A.—Yes.

Q.—Except the end of the year would arrive before the need of the money arrived? A.—Yes.

Q.—And then it would pay it in at the end of the year? A.—Yes.

Q.—Was not that transaction put through in that way to show a profit to the National Agency? A.—No, it was not, it was not thought of.

Q.—The National Agency was the company that was paying the dividends? A.—Yes.

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Q.—And you were having questions raised all the time as to your profit, whether you were paying that out of capital? A.—I think it only arose on one or two occasions.

Q.—It arose very early and it seems to have been referred to several times; do you think I am carrying it too far when I say it was rather a constant matter of discussion? A.—Yes, I think you are; it only arose on two or three occasions.

Q.—Two or three occasions spread over the two or three years the company has been in existence? A.—Yes, four years.

Q.—That would be once a year about? A.—Possibly.

Q.—You say that this passing of this real estate through the National Agency, adding of \$8,000 to the price, and then transferring it to the Union Life Company was not a means of showing profit in the hands of the National Agency Company? A.—It was when the transaction was made, but it was not intended to do that when the building was purchased.

Q.—If the National Agency Company were the owners of the Union Life what was the object of showing any profit on the transaction at all, why not put it in at cost? A.—Because the building was worth more money.

Q.—What difference did that make; the National Agency Company was the sole shareholder practically in the Union Life? A.—Why should the Union Life carry an asset in its account for \$8,000 less than the building was worth?

Q.—If it was a fair value you could put it in the Union Life and write it up, that has been a known transaction, we have discovered that as having been done in insurance life? A.—It could not have been done in that way.

Q.—But that would not show any profit to the National Agency Company, would it? A.—I suppose it would, yes; the National Agency Company being the shareholders would benefit that much more by the increased value.

Q.—That is quite true, whatever value there was in the increased value of the asset the National Agency would reap its share as shareholder? A.—Yes, in other words there would have been \$8,000 more surplus in the Union Life which would have accrued to the benefit of the National Agency.

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Q.—Did you get any valuation of the building at the time? A.—Yes, Messrs. Symons & Rae the Architects.

Q.—I see their name figuring here too? A.—They were the architects for the renovation of the building.

MR. LANGMUIR: Q.—What is the ground rent that is payable there? A.—\$280 a year, paid quarterly.

Q.—When does that lease expire? A.—I believe the lease has about ten or eleven years to run yet, renewable.

Q.—That would make a profit at any rate, that would show a direct profit to the National Agency? A.—In either case.

Q.—In this way it would show the profit as a profit carried directly through the books of the National Agency? A.—Yes.

Q.—Did you say that that was not in your mind at the time the transaction was put through in that way? A.—At the time the purchase of the building was made, no.

Q.—I suppose the Union Life is the company that would be wanting the building, that is the use of the building? A.—Yes, eventually, if we decided to own the building.

Q.—You had decided to own it when the National Agency bought it? A.—Not the Union Life, we rented it for some time after that.

Q.—The Union Life rented? A.—Yes, rented our offices.

Q.—They were rented to other parties? A.—Yes, there were several offices rented.

Q.—Then comes by-law number 60: "The Directors of the Company are authorized to use its funds" (Reads down to the words "In the Insurance Act")—do you remember why that by-law was passed? A.—So that the funds of the National Agency Company would be only utilized for the purchase of such securities as the Insurance Act called for.

Q.—Why was it put there as a by-law? A.—I do not remember any further about it than that.

Q.—Then there is the final by-law to increase the capital stock to \$750,000; no part of the stock has been issued? A.—No.

Q.—Was not that due to your finding it hard to sell the stock? A.—Possibly it was, and also that we by issuing debentures understood that

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we could get the money at a lower rate of interest.

Q.—To whom were you offering the debentures? A.—Throughout the country through an agent.

Q.—Are they being sold? A.—They have been sold.

Q.—To what extent? A.—I think about \$150,000.

Q.—\$150,000 of the debentures; have you the form of the debenture here? A.—I have the initial form that you asked for yesterday; that is the initial form. The subsequent issue I have not here.

Q.—How many set of debentures have you issued? A.—Three.

Q.—And this is the one that was issued to the President to secure all of you directors against some endorsement of a fifty thousand dollar note? A.—Yes.

Q.—Were the directors paid anything for that endorsement? A.—No.

Q.—No remuneration to them at all? A.—No.

Q.—For having gone on the note? A.—No. I might say it was arranged there should be a payment made later on, not at that time, but a few months ago, but no payment has been made as yet.

Q.—Where is that arrangement made? A.—I think it was about four months ago. It was understood it was to be, but nothing was done with it yet. Mr. Symons will tell you in a moment, he has the minute book.

Q.—That debenture reads, (Reads debenture, which was marked as Exhibit 106).

Q.—You say that other debentures have been issued? A.—Yes.

Q.—That is not the form of the debentures that is being sold now? A.—No.

Q.—When do the debentures that are being sold now mature? A.—Varying dates, at five to ten years, may be some shorter than five but only very, very few, if any; mostly ten years.

Q.—Carrying what rate of interest? A.—Some 5 and some 6 per cent.

Q.—Being sold at what price? A.—Par.

Q.—Universally? A.—Yes, absolutely.

Q.—Are these being sold by the same persons that are soliciting insurance or by special agents? A.—By special agents.

Q.—I suppose the same persons that had the sale of the stock? A.—Yes.

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Q.—That is Dr. Hughes would be the principal one at the present time? A.—Yes.

Q.—This is the resolution I suppose, of directors that you are referring to at page 90 of the directors' minute book, passed on the 31st August, 1905. The persons present were the President, that would be Mr. Symons, Dr. Hughes, Mr. Jones and Dr. Millichamp? A.—Yes.

Q.—And they were all parties to the note? A.—Yes.

Q.—And their resolution is, "Whereas the directors of this company have from time to time personally assisted," etc. (Reads down to the words "Available for that purpose"). That resolution was passed at a time when it was known that the note would be met and paid off? A.—Yes.

Q.—That was the note that was issued to the Union Bank in order to raise money instead of depositing the shareholders' notes with the bank? A.—Yes.

Q.—And the directors got the security of all the assets of the company behind them for that endorsement? A.—Yes.

Q.—The directors themselves passed this resolution? A.—Yes.

Q.—Has that been confirmed by the shareholders? A.—Yes, that would be confirmed at the last meeting of the shareholders.

Q.—On the 31st August, 1905, that was the same date — I suppose this meeting of the shareholders would be held immediately after the directors' meeting, would it not? A.—Is that another meeting?

Q.—Minutes of special general meeting of the shareholders of the National Agency Company held on the 31st August, 1905, at 11 A.M.; then the directors' minutes were August 31st, 1905, meeting held at 10 A.M.? A.—Yes.

Q.—The notice on page 777 notified the shareholders that the meeting would be held for the purpose of confirming by-law number 61 of the company, increasing its capital stock, together with all by-laws and resolutions of the shareholders, Board of Directors and Executive Committee respectively as recorded in the several minute books of the company; and then the directors met immediately before the shareholders' meeting and passed among other resolutions this resolution to remunerate themselves to the extent of \$500 each? A.—Yes.

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Q.—That would hardly be one of the by-laws one would think that was to be confirmed at that meeting of shareholders; however at page 81 of the shareholders' minute book is this: "That the acts and proceedings of the directors," etc. (Reads down to the words "to all intent and purpose")—that was passed by the shareholders when the only persons present were Mr. Symons, yourself, Dr. Millichamp, Dr. Hughes and Mr. Jones, so that you were the directors and the shareholders both for the purpose of passing and confirming that resolution? A.—Yes.

Q.—All the other shareholders being represented by yourself as proxy? A.—Yes.

Q.—Is there any other transaction of that nature between yourself and the company or any of the directors in the company? A.—No, I don't know of that.

MR. McLAUGHLIN: That money was never paid as a matter of fact? A.—No, it was never paid.

MR. TILLEY: I suppose the time is not ripe yet for payment? A.—Possibly not.

Q.—You have not in anyway abandoned that? A.—Not in the slightest.

Q.—It is your misfortune it is not paid by this time? A.—Precisely.

Q.—The clause at the end of the by-law says, "It shall be paid out when the necessary funds may be available for that purpose;" that is all you are waiting for? A.—That is all, still regarded as to be paid.

Q.—Just while I have the book open at this page I want to ask you what the meaning of this transaction is regarding Mr. Webb's shares, page 91, of the directors' minute book. The entry is: "The President presented a letter from Mr. G. H. Perley, M.P., etc." (Reads to the words "if she desire")? A.—Mr. Webb had subscribed originally for 100 shares.

Q.—Is this the same Mr. Webb you referred to before that you had been remunerating for his assistance to the company? A.—Yes, and subsequently the interest on the Port Hood bonds was defaulted, and they were turned over to the National Agency Company—and I may say since that time Mr. Webb has died.

Q.—Apparently he was dead at the date of this resolution? A.—Yes, and Mrs. Webb through Mr. Perley wrote in and asked us if we would relieve her or sell 50 shares, I think it was

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all her stock for her. We did not see our way to do that, but we offered to return to her the seven thousand dollar bonds of the Port Hood Coal Company.

Q.—Those bonds were bonds that had shown signs of becoming worthless? A.—Yes, so we were willing she should take them back if she wished.

Q.—They did become worthless, did they? A.—The company is still in difficulties I understand, but they are being re-organized.

Q.—You offered to take one-half her shares off her hands and give her back the Port Hood bonds? A.—Yes.

Q.—That was done? A.—No.

Q.—Why? A.—She would not take them.

Q.—That is not the way you have treated other shareholders who wanted to get rid of their stock? A.—No, but we thought in that case when the bonds had turned out not to be of as good a class as we expected that she should be willing to take them back if she was in earnest in wanting the transfer made.

Q.—You thought as they were not as good as when you got them she should take them back? A.—Yes.

Q.—And you were willing to deal with her as to half her stock on that basis, and that fell through? A.—Yes.

Q.—They were able to pay? A.—They were fully paid.

Q.—The people you were letting out of their stock were people who had not paid? A.—Yes.

Q.—And who were not able to pay? A.—I think so, a good many of them.

Q.—Did you think you could make any of them pay and take their stock off their hands? A.—We did not consider that, if a person expressed a desire to sell we would endeavor to find a purchaser for them.

Q.—Although you were trying to sell your own stock at the time? A.—Yes, we did not want to embarrass any shareholder, and we sold all the stock that was presented.

Q.—You say about \$150,000 of debentures have been sold? A.—Yes.

Q.—In scattered lots? A.—Yes.

Q.—Has any person any large holding of them? A.—No, not large, perhaps five thousand, some two thousand and three thousand.

Q.—Do you hold any of them? A.—No.

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Q.—Do any of the directors hold any? A.—No.

Q.—Does the bank hold any? A.—I don't think so now; yes, I think they do. Mr. Symons could tell you definitely—I think there are some there as collateral to the balance of a loan that is there.

MR. SYMONS: I think we have placed some of them in the bank as collateral for any over-draft.

MR. TILLEY: Q.—That would be the over-draft of the National Agency? A.—Yes.

MR. TILLEY: I will put in the by-laws of the Union Insurance Company. These by-laws seem to be very much the same as the others. I will refer to the clause as to directors, number 5: "The Board of Directors shall be seven in number," etc. (Reads).

"(a) Directors for the time being may at any time limit," etc. (Reads).

"(b) The Directors may fill vacancies," etc. (Reads).

(Reads also c, and d). That by-law 5a, which was added to the old by-law 5 as to the qualification of directors, this special provision as to the Board of Directors being able at any time to set a limit on the life of one of their number, that was something new added at what time? A.—I think last fall.

Q.—That is in the fall, 1905? A.—Yes, I think so.

Q.—And confirmed by the shareholders? A.—In February, 1906, following.

Q.—And directors are now appointed for three years? A.—Yes.

Q.—Who are the directors that are now appointed? A.—Mr. Symons, Dr. Millichamp, Dr. Hughes, Colonel Jones, Mr. Harvey and Mr. W. H. Carrie.

Q.—And these are all appointed for three years? A.—Yes.

Q.—Have you ever heard of a provision like that before in the by-laws of the company, that the directors can terminate the life of one of the directors whom the shareholders have appointed? A.—No, I don't know that I have.

Q.—Whose idea was this—yours? A.—No.

Q.—Who? A.—Mr. Symons drafted the by-law.

Q.—For what purpose? A.—No discussion took place on that part of it.

Q.—This is a recent matter, 1905? A.—I understand the by-law to refer

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to the election of directors, not to the vacating of the office while it is being held.

Paragraph A says: "The Directors for the time being may at any time limit by resolution the term of holding office as directors of any one or more of their number," and if they exercise the right the position ipso facto becomes vacant at the end of the time fixed; I understand that resolution to mean that if the Board of Directors desire at any time during the life of the Board that they can pass a resolution and say that John Smith's tenure of office as director will expire this afternoon at 6 o'clock, and ipso facto he ceases to be a director; is that what you understand it to mean? A.—No, I understand it to mean that if a vacancy occurs in the Board at any time and a new appointment is made—

Q.—No, the directors for the time being may at any time limit by resolution the term of holding office as directors of any one or more of their number, and in the event of the exercise of that right the director so affected shall hold office as such only during the term so limited, and then it shall be ipso facto vacated—and it provides in paragraph (b) That the directors may fill vacancies upon the Board arising from any cause between the general elections, and when doing so shall declare the term for which the incoming director or directors shall hold office—there they can fix the time that the directors so appointed shall hold office, but the previous clause enables them to put any director off the Board who is objectionable to them, that is the long and short of it? A.—It would seem so; I had no such construction of it before.

MR. SYMONS: May I give the reason for it?

MR. TILLEY: I would like to get Mr. Evans' recollection on these matters first? A.—I did not notice that construction of it.

Q.—Tell me what had happened that brought to the attention of yourself and the other parties who were in the control of this company the question of directors' term of office in any shape or form? A.—He wished to make the policy of the company continuous in so far as it lay within our power to do so, and we were always liable to trouble from competing companies, and we wished to be

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in a position to control the policy of the company with reasonable continuity.

Q.—When you say we wished to be able to control the policy of the company who did you include in the we? A.—The directors.

Q.—Are all the directors included in the we, or does that refer to the Executive Committee for instance?

A.—No, that would include all the directors.

Q.—Are all the directors equally interested in the company—I am not talking as to their holdings of stock, but are they equally interested in the carrying on of the company; do they take an equal interest? A.—I think so, all of them.

Q.—These directors came to that conclusion that the policy of the company should be continuous when once mapped out, and the only way to secure that would be to have the Board of Directors a permanent quantity? A.—Yes.

Q.—Go on from that point, let me get to the reason of your by-law? A.—On that account that by-law was drafted in that way, in order to provide for that.

Q.—You say all the directors are of that opinion, that they want it continuous, then where is the difficulty going to come, are you afraid of some one of them? A.—No.

Q.—Why do you want to get it in your power to turn any one off? A.—I don't understand the by-law to read that way.

Q.—“The directors for the time being may limit by resolution the term of holding office as directors of any one or more of their number, and at the end of that time he shall cease to be a director”? A.—That construction of the by-law never occurred to me.

Q.—There is no other construction to that language, is there? A.—It does not seem so.

Q.—And at any rate you have now present to your recollection the idea that then existed that you should have a continuous policy for that company, and that could only be secured by having a uniform or substantially uniform Board of Directors? A.—Yes.

Q.—And this by-law at any rate was passed for that purpose? A.—Yes.

Q.—To secure the uniform personnel of the directors? A.—Yes, uniform policy.

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MR. SYMONS: With the consent of Mr. Tilley I would just explain the reason for that. With regard to subsection A, which gives power to the majority of the directors to declare vacant the office of any of their co-directors, that was put in as a matter of protection. Of course I am on the Board of Directors, and represent the National Agency Company as President; it was thought—some of those on the Board of Directors of the Union Life are officers of that company, for instance take Mr. Evans as President himself, he is Manager; Mr. Carrie is Cashier, Mr. Harvey is Consulting Actuary, and I am the Secretary, and at some time or other some matter might arise which would make it desirable that his Chair might be vacated, so to speak, and there should always be entire accord of the whole Board, so that if there was any dissent arose then the majority should have absolute control; and that applies to each one and all of us. We all thought that was the safest way in the interest of the National Agency Company, as well as in pursuing the general policy of the Union Life. It was a matter of protection.

MR. KENT: You were afraid some time that the tail might wag the dog?

MR. SYMONS: There was another reason, too; as I said, two or three of the directors were officers of the company, they might vacate those offices, and it was therefore very desirable that their places should be filled by some one else on the Board.

MR. TILLEY: Q.—Let me ask you a question after the statement by Mr. Symons; he suggests rather a new line of thought. Was Mr. Harvey a director at the time this was passed? A.—I don't think so.

Q.—Was it then being considered he might be made one of the directors? A.—I think so, yes.

Q.—Was he elected a director at this meeting? A.—I think so, or about that time.

Q.—Does that not call to your mind that this resolution and by-law was passed in case it might be thought advisable to get him off the Board later? A.—I don't remember that any discussion took place as to that.

Q.—Mr. Harvey is the actuary of the company? A.—Yes, consulting actuary.

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Q.—And he had been making an investigation of the company's affairs? A.—Yes.

Q.—And it was on his report that you had justified—I don't use that at all in any objectionable way—your annual statement of last year? A.—Yes.

Q.—That is to say his report was the basis for a good many of the items that appeared in that report, or at least one or two substantial items? A.—Yes.

Q.—I mean now of the National Agency report for last year? A.—Yes.

Q.—And is he connected with other insurance companies? A.—I believe he is actuary for another company in the United States.

Q.—Carrying on a —. A.—An industrial business.

Q.—Was or was not this by-law passed at that time having regard to the fact that you were taking on a person who to some extent was a stranger to you?

MR. SYMONS: No, that was in view at all; there is an insinuation in that which I do not think should be permitted; it was not so, he was not in mind at all.

JUDGE MACTAVISH: Mr. Evans can surely answer that question himself.

MR. McLAUGHLIN: I submit an insinuation of that kind ought not to be made.

MR. TILLEY: It can be very easily denied.

A.—I have already stated that I have no recollection of any conversation taking place or thought in connection with that at all.

Q.—That is as strong as you care to put it? A.—Yes; I don't think I could put it more strongly.

Q.—Mr. Harvey is still a member of the Board? A.—Yes.

Q.—And I suppose this clause in the by-laws has never been acted upon? A.—No.

Q.—You have never put a director off the Board under that by-law? A.—No, never.

Q.—Then there are other by-laws here that are very much the same as the by-laws of the National Agency? A.—Yes, they are very similar all the way through.

Q.—You have the same provision as to the period of notice of a resolution? A.—I don't remember it, but I should think they would be the same,

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because they are similar all the way through in purport.

Q.—I see by by-law 33 any shareholder desiring to introduce a resolution at any annual or special general meeting shall give notice thereof in writing by pre-paid letter and so on, three months before the holding of the annual or the special meeting; you call a special general meeting on a ten days' notice? A.—I think so.

Q.—How do you suppose that a shareholder is going to give you three months' notice of any resolution he is going to bring on at a special meeting when he only gets ten days' notice of a special meeting? A.—I would like to say since this morning at luncheon I was thinking over the circumstances that led to the passing of that by-law of the National Agency, and I distinctly remember now that at that time it was thought one of our competing companies might interfere in some way in our business by getting a shareholder to come in and make trouble for the company. There had been such transactions take place before and we wished to guard against it, and I remember conversation in connection with that. We wished as far as we could to put ourselves in the position to prevent any other company from taking what we would consider an unfair advantage of the situation that they might bring to pass themselves, and those, what you might term rather drastic by-laws were put in to cover that contingency.

Q.—You say you remember now some conversation, that that was discussed? A.—Yes.

Q.—Was that suggested to you by any one at noon? A.—Yes, I was talking to Dr. Millichamp about it.

Q.—And he remembered something that had slipped out of your mind for the time being? A.—Yes.

Q.—And on his suggestion do you remember that conversation did take place? A.—Yes.

Q.—Between whom? A.—He and I talked it over, and I don't know whether there was any one else or not, possibly Mr. Symons also. It was a long time ago.

Q.—You thought that some shareholder might be prompted to cause trouble in the interest of some other company? A.—Yes.

Q.—And for that reason you would pass as strong resolutions as you could

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in order that you should not be taken unawares? A.—Yes.

Q.—I suppose you could not think of anything to pass that would guard you more than the resolution you have? A.—We thought that covered the case very fully.

Q.—Did you say that was the only reason? A.—Yes, it was.

Q.—Have you ever had any trouble of that kind? A.—No, but we have always feared it.

MR. TILLEY: These are the by-laws of the Union Life, and before this is made an exhibit in the natural course it would be well to make the minutes of the National Agency Company an exhibit. They are not copied, but we should not keep their original books, so that if a blank is left for those minutes these by-laws of the Union Life can follow after them as an exhibit.

Copy of minutes of National Agency Company to be filed as Exhibit 107.

By-laws of the Union Life marked as Exhibit 108.

MR. TILLEY: I will put in a copy of the minutes of the Union Life. Mr. Symons asks me to put them in in this way: first, the general minutes of the Union Life from the general book (Marked as Exhibit 109); then the minutes of the Board (marked as Exhibit 110) and then the minutes of the Executive (marked as Exhibit 111).

Q.—Are the minutes of the Maritime Board included in these minutes? A.—They are sent in by the Secretary and pasted in the book.

Q.—How often does the Maritime Board sit? A.—I think twice a year.

Q.—And they are recorded and sent up to the Toronto office and pasted in your regular minute book? A.—Yes.

MR. TILLEY: I will put in in order to keep them together, the statements of assets and liabilities that appear in the directors' minute book of the National Agency Company. The statement shows the page from which it was taken in each case, and then sets out the items of assets and the items of liability for June 1st, 1902, December 31st, 1902, August 31st, 1905, November 1st, 1905, and income and expenditure of 1st November, 1905.

Statements of assets and liabilities referred to marked as Exhibit 112.

Q.—You were going to get the cash book and give me the payments that

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were made on account of premium in the year 1905, have you that here now?

MR. CARRIE: I will give you the dates from the ledger. The answers are given by Mr. Carrie until a change is indicated.

Q.—Which ledger are you reading from? A.—Union Life, folio 26. March 20th, \$4,000; April 29th, \$1,000; May 3rd, \$1,500; May 8th, \$2,000; May 29th, \$1,800; June 5th, \$2,000; June 19th, \$2,000; July 10th, \$2,000; July 31st, \$2,000; August 14th, \$2,000; August 28th, \$2,000; September 18th, \$1,000; September 25th, \$2,000; October 2nd, \$1,000; October 30th, \$2,500; November 6th, \$1,000; November 27th, \$3,200; November 25th, \$107,000.

Q.—That is \$140,000? A.—Yes.

Q.—Paid by the National Agency Company to the Union Life Insurance Company in 1905?

The following answers are given by Mr. Evans until a change is indicated. A.—Yes, on premium account.

Q.—I suppose just in the same way that you told me yesterday, and I think again this morning, these payments of \$4,000 and \$1,000 and so on down through the list until you come to the \$107,000 would be paid to the Union Life Company just as it needed the money? A.—Yes.

Q.—To actually disburse? A.—Yes.

Q.—And then the final \$107,000 would be paid then here December 25th—was it December 25th or December 31st? A.—I could not say; I should think it would be almost the last day of the year.

Q.—It would be as near to the end of the year as you could get? A.—We could not make up the account until almost the last day.

Q.—You would be hardly able to tell how much you would need until about the last day? A.—No.

Q.—On December 31st we will say this \$107,000 was paid; that would be paid just as you said yesterday to keep your capital unimpaired pursuant to the agreement? A.—Yes.

Q.—I think you said yesterday that was paid to keep it unimpaired—on the day before that \$107,000 was paid in your capital must have been impaired, was it not? A.—No, because there would be a contra

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account at that time for a large proportion of that.

Q.—Was that shown in your books? A.—There would be \$107,000 paid to the Union, there would be also a large amount paid to the National for commissions, I should think about \$80,000.

Q.—Let us have those items? A.—You see we adjusted the accounts between the National and Union at the end of the year.

Q.—I understand that we had that at the end of 1904? A.—Yes, I want it to be made quite clear that that \$107,000 did not all increase the assets of the Union Life at that time.

Q.—I quite understand that? A.—All the commissions account would probably be payable at that date.

Q.—If the state of affairs was as you say, that the capital account was not impaired on the 29th why the rush to get things in shape for the 31st, why not let it go over the 31st? A.—The capital might be impaired partly to the extent of the difference between that and the amount which the National Agency Company would receive as its share of the commissions.

Q.—To the extent of the difference between what the National Agency Company paid the Union Life and what the Union Life paid back to the National Agency Company there might be impairment? A.—There might be.

Q.—It would not be right to say I suppose that the capital of the Union Life has never been impaired, what you mean by that is it has never been impaired on the 31st December in each year? A.—We only take an accounting at the end of the year.

Q.—The moneys were not paid in from time to time in order to keep the capital right, but that would be guarded against on the 31st December? A.—Yes. There was nothing paid back of that on the first of the year, it stood, and gradually may have declined at times during the year.

Q.—I quite appreciate that, that this money to the extent to which it was paid was not a transaction that was checked out again on January 1st, 2nd or 3rd of the next year? A.—I want to have that clear.

Q.—I do not want to have it indicated that I am thinking of that when I am asking you these questions; I am comparing now December 31st with

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say a week prior to December 31st, and I suppose it would not be correct to say that a week prior to December 31st when you fixed it up the capital was not impaired? A.—If we were going to take an account in that way we would have to adjust our accounts every week.

Q.—There was no liability on the National Agency Company except as the agreement indicated that has already been put in as an exhibit to pay this money at all? A.—No.

Q.—And it was on the basis of that agreement that you would call upon the company to pay in the money to keep the capital unimpaired? A.—Yes.

Q.—So that before you got in this money if you had taken account the capital would have been impaired—you would have got in the money to square up the account? A.—Yes.

Q.—If you had taken account without taking any precaution to get the accounts right first your capital would have been impaired? A.—I suppose so, yes; I never heard of a company taking account every day, and that is the way it would have to be in order to bear out your contention.

Mr. Carrie answers the following questions until a change is indicated.

MR. TILLEY: Q.—What bank books have you? A.—The National Agency and the Union Life.

Q.—Just tell me what transactions took place between the two companies at the end of December, 1905, and give me the dates on which they took place? A.—On December 30th, 1905, the National Agency Company paid to the Union Life a cheque for \$107,000.

Q.—That is a cheque was issued on the National Agency Company's account for \$107,000? A.—Yes.

Q.—And passed to the credit of the Union Life? A.—Yes, received and deposited in the Union Life on December 30th, and the deposit is there shown.

Q.—Both entries appear in the bank books of each company? A.—That is right. The Union Life gave a cheque to the National Agency for \$101,645.20.

Q.—Does that cheque appear in both bank books? A.—Yes, it appears on the credit side of the National Agency Book, and on the debit side of the Union Life it appears in two amounts.

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Q.—The first amount being? A.—\$84,645.20, and \$17,000, making a total of \$101,645.20.

MR. EVANS: There would be no impairment because the difference would be only \$5,000 and the surplus was \$12,000 over and above the \$100,000 of capital.

Q.—That may be so as to 1905, but that was not so as to 1904.

MR. CARRIE: It would be the same for each year, practically the same thing. There was just a cheque, one to cross the other.

Mr. Carrie refers to bank book for the end of 1904, and says the difference between the cheque issued by the National Agency Company to the Union Life and the cheque issued back by the Union Life to the National Agency was about \$15,000.

Q.—MR. TILLEY: So that the cheque issued to the insurance company exceeded the cheque issued by it by about \$15,000? A.—(Mr. Carrie). Yes.

Q.—That would show an impairment of capital before it was done?

The questions are answered by Mr. Evans until a change is indicated.

A.—The difference between that and the surplus.

Q.—The surplus being only \$4,609 at the end of that year and the extra amount paid in being \$15,000, that would show that before that payment in the capital was impaired to that extent? A.—Yes; it may be for that day only or a week.

Q.—Yes, for a short time preceding the end of the year at which time care was taken to see that that was made right? A.—Yes.

Q.—I was going to ask you about your annual return for 1905? A.—I would like to make it clear that that did not affect the reserve in any way, that was a clear surplus over and above reserve, and simply was an impairment of the capital, not of the reserve in any way, shape or form.

Q.—What you say is——? A.—That that \$11,000 or whatever the amount would be, the reserve was not impaired in any way by that, it was a clear surplus over and above the reserve that would be reduced less than the \$100,000.

Q.—But that cheque issued by the Life Company to the Agency Company was partly for securities? A.—Yes.

Q.—So that even in the way you have taken that account at any rate for the end of 1904 would not be quite correct because the insurance company

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did get from the Agency Company certain securities for that cheque? A.—Yes.

Q.—So that you could not deduct the whole of that cheque from that payment made by the Agency Company to the Life Company, could you?

MR. McLAUGHLIN: Let Mr. Carrie make the adjustment again; the adjustment will show it is practically right.

MR. TILLEY: Taking up this in the meantime; this is the annual statement you sent in to the government at the end of 1905, exhibit 51? A.—Yes.

Q.—At the end of 1905 you show in the assets of the Union Life Company some stocks and debentures of different companies, leaving out the municipal debentures, the first debentures that you show are Dominion Permanent Loan Company, amounting to \$5,100? A.—Yes sir.

Q.—At the end of the preceding year, that is 1904, you had Dominion Permanent Loan Company debentures of \$1,000? A.—Yes.

Q.—And at the end of 1905 you had \$22,958 of shares of Dominion Permanent Loan Company stock? A.—That much par value.

Q.—Which is carried through at a ledger value of \$20,602.20? A.—Yes.

Q.—The market value being given as the same? A.—Yes.

Q.—The preceding year 1904 you had had \$8,958 of Dominion Permanent Loan Company stock? A.—Yes.

Q.—The ledger value being the same as the market value? A.—Yes.

Q.—That means that during the year 1905 you got the difference between \$8,958 and \$22,958 of that stock? A.—Yes.

Q.—You got that from the National Agency Company? A.—Yes.

Q.—And you got it on the 31st December? A.—Yes, or about then.

Q.—That would be paid for I suppose by the cheque that you have referred to of \$101,000 odd? A.—Yes.

Q.—So that included in that \$101,000 cheque would be the price of a lot of stocks and bonds that you got from the Agency Company? A.—Yes.

Q.—Then that would simply increase the impairment of the capital, preceding December 31st, because you remember you took \$106,000 as paid in by the Agency Company on December 31st, to the insurance company, but

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you deducted from that a cheque for \$101,000, you remember that? A.—Yes.

Q.—But that \$101,000 was in payment of stocks and shares which were transferred? A.—Yes.

Q.—There would be a substantial impairment before December 30th? A.—No, because those shares would go into the assets of the company.

Q.—Yes; what you said was, the \$107,000 which the Agency Company paid to the Life Company could not be spoken of as all an increase in assets of the Life Company at that date, because you were giving a cheque for \$101,000 to the Agency Company on the same date, and I understand you to say that was in payment of commissions earned by the Agency Company? A.—Yes, partly.

Q.—But substantially it would be for these very securities? A.—Yes.

Q.—And you would get securities back from it on that payment? A.—Mr. Carrie could explain that better than I could.

Q.—Do you see my point? A.—Not very clearly.

Q.—I would like you to see it first; we were discussing whether prior to December 31st when the Insurance Company received \$107,000 from the Agency Company that cheque was given, I understood you to say the other day, to prevent the capital being impaired? A.—Yes, to maintain the surplus.

Q.—A straight payment of premium to maintain the surplus? A.—Yes.

Q.—The whole of that cheque was so much profit to the life company, was it not at the time it was received, very much an increase of its assets? A.—Yes.

Q.—Prior to the receipt of that cheque from the Agency Company its assets would be just that much less, would they not—

MR. McLAUGHLIN: They did not owe the Agency Company the cheque for commission according to the terms of the contract except in so far as it would not impair the capital.

MR. TILLEY: Let Mr. Carrie figure it out. I want to know to what extent on December 31st in the year 1905 and also in 1904 there must have been, before payment made on that date by the Agency Company to the Life Company, an impairment of capital, or even more than an impairment of capital, probably an impairment of the reserve.

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MR. CARRIE: You cannot show that unless there is a careful examination of either company made; you cannot prove that by merely taking a hurried glance at the bank book or cheque.

Q.—Take your time to think over it? A.—(Mr. Carrie). All right.

The following answers are given by Mr. Evans until a change is indicated.

Q.—The Dominion Permanent stock that was carried into the assets of the Union Life Company at the end of 1904 was carried in at par? A.—Yes.

Q.—And the stock that was bought during 1905 was carried in at less than par? A.—Yes.

Q.—About what rate? A.—It was brought in at such a rate as to bring the whole holding of the Union Life to about 90, I think.

Q.—Tell me what Dominion Permanent stock at the end of last year was worth? A.—I could not say definitely any more than that it is not listed, and we recorded it as worth par, but we thought it well to put the assets at a very conservative valuation and to put it in at that price.

Q.—You hold \$22,958 of it? A.—Yes.

Q.—That is of Dominion Permanent stock; you also hold some of it, do you, on behalf of the Agency Company in addition to this? A.—Yes, I think so.

Q.—How much? A.—I could not tell you just now. Mr. Carrie says about \$1,950.

Q.—Has the Union Life any more Dominion Permanent stock since the beginning of this year? A.—No.

Q.—What do you say as to the value of Dominion Permanent stock at the end of 1905? A.—I should say it would be worth par.

Q.—That is to say on the market; could you realize that for it? A.—It is not a listed stock.

Q.—It is quoted, you know that? A.—No, it is not quoted.

Q.—I am not talking of on the Toronto Stock Exchange, but it is a stock you see quotations in the paper, on the standard exchange? A.—I do not think that is generally made a basis of valuation, the Standard Stock Exchange quotations.

Q.—Can you say what the stock will bring on the market if you want to sell it? A.—I don't think any one would sell it in that way, they would

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sell it privately, and they would realize par if they did.

Q.—Could you sell that stock at par? A.—I should think so, yes.

Q.—Have you ever tried? A.—No.

Q.—You have had no sales? A.—No.

Q.—Have you had any purchases? A.—Have we made purchases?

Q.—Yes? A.—Only so far as they are shown by the accounts.

Q.—These accounts produced from the National Agency? A.—We have not purchased from any one else.

Q.—Look at it from the National Agency standpoint, has it purchased the stock? A.—Yes.

Q.—Has been purchasing it gradually for some time? A.—Yes.

Q.—Paying cash for it? A.—No, would take it in exchange for stock.

Q.—What stock? A.—National Agency stock, or debentures.

Q.—Which was used by you to acquire this Dominion Permanent stock, debentures or stock? A.—Both, some one and some another.

Q.—Tell me just what that transaction means, the exchange? A.—A person would buy a certain number of our debentures and they would pay for them by transferring to us so much Dominion Permanent stock or such other stocks as we might agree to accept.

Q.—You were issuing your debentures, as I understand it, in payment of Dominion Permanent stock and some other stocks? A.—Yes.

Q.—On such terms as you could arrange? A.—No, we never took any less than par.

Q.—What did you allow for the others? A.—Par.

Q.—It was an exchange of your debentures at par for Dominion Permanent at par? A.—Yes.

Q.—Tell me who carried through those transactions for you? A.—Mostly altogether the agents in the field, that is our stock agents, the brokers.

Q.—Give me the names of all the agents in the field? A.—Mr. G. W. McAllister of Galt; Dr. Hughes of Galt; and I think Mr. S. Gregory of London; those are the only ones so far as I can remember now.

Q.—Has any person in Toronto been attempting to get Dominion Permanent stock for your company, either company? A.—Not that I know of.

Q.—Or Colonial Investment stock? A.—No, not that I know of.

Q.—I understand you to say that Dr Hughes and these other two parties are the only ones that have been

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doing this exchanging of stocks for debentures? A.—Yes.

Q.—And all the exchange has been made through them? A.—Yes.

Q.—Have any stocks of the Dominion Permanent been acquired by the National Agency except by exchange in that way? A.—I would not make a positive statement, but not that I remember of at this moment.

Q.—Who could tell us of that? A.—Mr. Carrie could say that.

Mr. Carrie answers the questions until a change is indicated.

A.—I have no recollection of any stocks coming in other than by exchange.

Q.—No recollection of any stocks of the Dominion Permanent Company or the Colonial Investment Company? A.—Of either company.

Q.—Or the Trusts & Guarantee Company, or Reliance Company, or the Standard Loan Company, or the Sun & Hastings? A.—None of those companies.

Q.—Except by exchanging those debentures for them? A.—Except by exchanging our debentures for stock.

The questions are answered by Mr. Evans until a change is indicated.

Q.—You would give your debentures at par? A.—Yes.

Q.—For the stocks or debentures of these companies at par? A.—Yes.

Q.—And so far as you know no transaction has ever been put through by way of a cash payment for any of these debentures or stocks? A.—No, not that I know of.

Q.—Why were you exchanging your debentures for these stocks, what interest did your debentures carry? A.—Five per cent.

Q.—That is why you were exchanging them? A.—Because they would form securities that were acceptable to the Dominion Insurance Department for reserve purposes, and our debentures were not.

Q.—That was a means adopted by you of acquiring securities which the Insurance Department at Ottawa would accept? A.—Yes.

Q.—The Loan Company shares and debentures being within the investment powers of the insurance companies under the Act? A.—Yes.

Q.—You have not had any cash transactions in Dominion Permanent stock? A.—No.

Q.—You have never sold any? A.—No.

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Q.—You do not know of any person that has bought any? A.—No.

Q.—And you do not know of any person that has sold? A.—No, I do not.

Q.—You have no knowledge of the cash value or the price that could be realized on the market for them? A.—No, they mostly pay 6 per cent. and we considered them well worth par.

Q.—You considered them worth your debentures? A.—We considered them worth par.

Q.—You never paid par? A.—Always paid par.

Q.—You never paid par in cash? A.—No.

Q.—You exchanged your debentures for the stock? A.—Yes.

Q.—And all you can say is you regarded the stock as being worth as much as your debentures? A.—Yes.

Q.—That is what that transaction involves? A.—Yes.

Q.—Did you succeed or endeavor to transfer your stock for some of these stocks? A.—You mean—

Q.—National Agency Stock for Dominion Permanent stock? A.—Yes.

Q.—If you could transfer stock would you do that in preference to the debentures or transfer debentures in preference to stock? A.—I think we would transfer the stock probably in preference.

Q.—Why? A.—I don't know, it was not a liability that would have to be paid out in future, it was a permanent charge.

Q.—It would be a permanent matter when you would make that sort of transactions? A.—Yes, debentures would have to be paid off later.

Q.—You would not have to meet debentures if you used the stock? A.—No.

Q.—The stock bears interest at ten per cent., and the debentures bear interest at five per cent.? A.—Yes.

Q.—Are you quite positive that no broker in Toronto has been carrying through these transactions for you? A.—Yes, so far as I know.

Q.—No stock-broker or canvassing agent of any kind in Toronto? A.—No, not that I know of. There may have been one or two transactions. I have no recollection of them, and I don't know that they took place.

Q.—I suppose it was at the time you decided to make these exchanges so far as possible that Dr. Hughes was employed permanently? A.—I think we have always taken them.

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Q.—Since the company was organized? A.—Yes.

Q.—But you have done it considerably more of late I notice than you did in the earlier years? A.—Yes possibly.

Q.—You have now a substantial amount in these different companies? A.—Yes.

Q.—Could you say that the Dominion Permanent Loan Company stock that you hold or held at the end of 1904 would have realized more than \$80 per share if you wanted to sell it? A.—I should think we could have realized par for it if we had sold it. We did not buy it for the purpose of selling it. We bought it for an investment.

Q.—I am not asking you that. I am getting at what those securities were worth at the end of 1905. I want to know whether you think you could sell it at anything over \$80 per share or \$85 per share at the end of 1905? A.—I couldn't say at to that.

Q.—Is there any person in your company that would know more about that than you? A.—I shouldn't think so.

Q.—So that you cannot say what could be realized if you had to realize on that security? A.—No I couldn't say.

Q.—Then in 1905 you held \$41,640 of Colonial Investment and Loan Company stock? A.—Yes.

Q.—And at the end of the previous year you held \$29,640? A.—Yes.

Q.—So that you had acquired during the year? A.—The difference.

Q.—Some \$11,000 of Colonial Investment stock? A.—Yes.

Q.—That would be \$12,000 according to these two statements, but in your return in answer to our questions I see you have \$11,000? A.—Probably a typographical error.

Q.—In either case, 11 or 12 thousand dollars of the Colonial Investment stock? A.—I think it is 12 according to this return.

Q.—Do you know what that stock would realize if you tried to sell it? A.—I should say it would be about the same class as the Dominion Permanent.

Q.—Do you think you could sell it at par? A.—I don't suppose you could sell it on the Standard Stock Exchange for par. I have seen it quoted at less than par.

Q.—What is it quoted at there? A.—I think about 80 or 85.

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Q.—Have you ever seen it at 85?

A.—I don't remember. I have often glanced down but never particularly noticed the valuation that was put on them there. We don't take it very seriously because I don't think people are effecting transfers of stock of that kind through the Standard Stock Exchange.

Q.—Would you pay in cash over \$85 for it? A.—We never did because we never had occasion to.

Q.—Would you? A.—Not if we could buy it for less.

Q.—If a person came to sell you Colonial Investment stock would you pay him \$85 for it? A.—We certainly would if we were looking for an investment of that kind.

Q.—I am asking you whether you would pay him 85 if you had the cash? A.—Yes, I certainly would.

Q.—But you think you would not have the cash, possibly? A.—We would not make an investment of that kind, for cash, when we could get it through transfers.

Q.—Can you sell your debentures at par? A.—Yes, we have sold about \$150,000 of them at par.

Q.—Then these transactions that are mentioned here would be included in your sales at par? A.—Yes.

Q.—Why would it not do to sell your debentures at par and buy this Colonial Investment Company stock at par; that would be the same transaction as making an exchange, wouldn't it? A.—Yes, but if a man didn't have the cash he might have the stock.

Q.—Was not this looked upon as a good scheme to enable a man to transfer the stock of one company and get the debentures of your company without having to market either one of them and thereby ascertain what they were worth? A.—I would not say that there was any scheme about it. It appealed to him as a good transaction and appealed to us as equally so.

Q.—I suppose you got the list of the Colonial Investment Company shareholders to start with? A.—No, we did not.

Q.—How did you get the names of the parties? A.—Our men canvassing throughout the country ran across it in the course of their work.

Q.—Do you say your agents did not start out with the information as to who the shareholders were with whom they were going to try to exchange debentures? A.—I most positively say so. We never furnished them

with the name of a single shareholder of any of those companies. I am positive of that.

Q.—At what price have you taken in the Colonial Investment Company stock? A.—At par.

Q.—This last year, 1905, at what price have you taken it in, in your annual statement? A.—Oh, yes, at 90.

Q.—A little more than 90, wasn't it? A.—I think it was about 90. You can figure it.

Q.—Yes, I think that is about right. What did you pay to the National Agency Company for the last amount that you got in the year 1905? A.—We adjusted the price so that it would bring the whole holdings of the Union Life in the Colonial to 90.

Q.—Do I understand you to say that when you were taking over this stock from the National Agency Company at the end of 1905 that you were not then regarding what was the market price of that particular stock that you were buying, but you were having regard to the general price of what you had bought before as well as what you were getting then? A.—Yes, so as to bring the whole holding on the basis of 90.

Q.—Was 90 what you thought a fair price? A.—Well, we thought it would be very conservative and would scale our assets down to a good hardpan basis.

Q.—Would you care to say you could realize 90 for any portion of that Colonial Investment stock? A.—I should think so; it is a large and strong company.

Q.—But you have never tried it? A.—No.

Q.—And you say in making your purchases in 1905 you were evening up the price of all your stock as between the Insurance Company and the Agency Company? A.—Yes.

Q.—That seems a rather odd transaction; if the Insurance Company had bought some stock from the Agency Company in years before, why should the price be evened up? A.—We wished to bring it all to a basis of 90.

Q.—Why did you do it in that way? If the Insurance Company had bought from the Agency Company, that transaction would be closed would it not? A.—Yes.

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Q.—Why, then, should the Agency Company make an allowance with regard to it? A.—By mutual agreement.

Q.—By virtue of the relationship between the two companies? A.—Yes.

Q.—It is not very material between the two companies what you charge for that stock, I suppose? A.—It is material to the National Agency Company as the chief stockholder in the Union Life that the Union Life's statement should be of the best possible character, and on that ground the agreement no doubt was made.

Q.—But as a matter of dollars and cents to either company it did not make any difference whether you took it in at 85 or 90? A.—Well, I wouldn't say that.

Q.—The only thing that would enter it would be the individual holdings of your Directors, which the Agency Company had paid for? A.—I don't see how that would affect it one way or the other.

Q.—That would not have much effect, that is true. So that just in that way you say that you fixed a price at any rate that evened up the whole of the stock to 90? A.—Yes.

Q.—And you were having regard to that when you were fixing the price? A.—Yes.

Q.—I suppose the way the transaction would go through would be something like this: we will take over some of your Colonial Investment Company and we will put in all we have got and what we get now at 90 and then you would figure up what cash would have to be paid by the company on the 31st December on that basis, that would be shortly the way of arriving at it? A.—We arrived at it so that we would bring it all into the books at 90.

Q.—Then Quebec Light and Power Company bonds, were those the bonds you received from Mr. Webb? A.—Yes.

Q.—They are still carried at par? A.—Yes, and they are worth more than par.

Q.—The Electrical Development Company bonds, \$1,000. You carried those at \$900; you are taking those at 90? A.—Yes.

Q.—Was any bonus stock received with them? A.—No, none.

Q.—From whom were they obtained? A.—From the National Agency Company.

Q.—At what date? A.—I should think about a year ago. It was in the Union Life's statement of December

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31st, 1904, so it must have been brought in some time during 1904. Have you the date, Mr. Carrie?

MR. CARRIE: December 31st.

MR. EVANS: Right at the end of the year, Mr. Tilley, 1904.

Q.—That is when it came into the Union Life's statement? A.—Yes.

Q.—How long had the National Agency Company held it? A.—Most likely got it some time during that year.

Q.—And there was no bonus stock received on those bonds by either company? A.—No, none.

Q.—Nor by any officer of either company? A.—Nor by any officer.

Q.—Then the People's Building and Loan Company's stock, I see that you took that at par? A.—Yes.

Q.—In 1904, and in 1905 you have increased that to \$1,800? A.—Yes.

Q.—And you have put the value at \$1,710? A.—Yes, that would appear to be 95.

Q.—That is 1905? A.—The value would appear to be 95 on that.

Q.—I suppose you got that stock just in the same way? A.—Yes.

Q.—Exchanging at par? A.—Yes.

Q.—Then you did not have a very clear idea of values when you would exchange your debentures for stock that was worth 90 or 95 either indiscriminately? A.—Well values change.

Q.—Those two values were fixed both at the end of 1905 were they not? A.—Yes.

Q.—And you were getting them both as rapidly as you could at the end of 1905? A.—Yes.

Q.—And I suppose you would take either, there was no preference about it—or probably you would have a preference, but still you would exchange your debentures for either of them? A.—We would have regard of course to the financial condition of each of the companies.

Q.—But you were taking each of those stocks in exchange for your own debentures at par? A.—Yes.

Q.—And the same thing would apply to the Dominion Permanent Stock which you were taking in at what price did you say? A.—Par. You mean into the Union Life?

Q.—Yes. A.—Yes, par. No, 90 I should say.

Q.—And the Colonial Investment 90, and the Peoples Building at 95? A.—Yes.

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Q.—Then take the Canadian Savings and Loan stock, were you getting that by way of exchange just in the same way? A.—Just the same.

Q.—You had none of that in 1904, you got it during the year? A.—No, there are 1,500 here in 1904.

Q.—And then you got 1,100 more? A.—Apparently.

Q.—Making 2,600? A.—Yes.

Q.—In the 1905 statement you carry that at what price? A.—Par.

Q.—You regarded that as a better stock than the others? A.—Its position seemed to be better, yes.

Q.—So you put that at par? A.—It pays 7 per cent dividend that stock, that is the Canadian Savings.

Q.—You regarded it as something better to get than the Dominion Permanent? A.—Yes.

Q.—Or the Colonial Investment stock? A.—Yes.

Q.—But you were exchanging your debentures for either of them? A.—Yes.

Q.—At the same price? A.—Yes.

Q.—Trust and Guarantee stock \$19,800? A.—Yes.

Q.—Carried into the statement at what price, 1905? A.—Par.

Q.—What is that worth? A.—Par.

Q.—What is it worth on the market? A.—Well it depends on what you call the market. It is not a listed stock.

Q.—Do you know of any sales that have been made of it? A.—No I don't.

Q.—Do you know whether it could be sold? A.—I do not.

Q.—Is it fully paid stock? A.—I think most of it is, yes. I understand they have two issues, some at 20 per cent paid up and some fully paid.

Q.—Which is this? A.—I think this is all fully paid. Mr. Carrie will make a memorandum as to that.

Q.—Perhaps he can tell us now?

MR. CARRIE: There is a balance due—there is 368 shares—a balance due of \$2,900 on them. They are \$50 a share, the Trusts and Guarantee, and there is a balance on some shares of \$2,900. All the rest is fully paid.

MR. EVANS: (Continuing.) \$2,900 is still subject to call over and above this \$19,800.

Q.—Is there any liability on the other stocks that you have mentioned or are they all paid up? A.—I think they are all paid up.

Q.—Can you give me any further light on the value of Trusts and Guarantee stock on the market, I mean to

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say if you wanted to sell it or had to sell it? A.—No I could not. It pays 6 per cent dividend and I think is generally favourably regarded.

Q.—Well of course your stock pays 10 per cent. if you are going to measure it by the dividend? A.—All stocks cannot be measured by the the dividend.

Q.—Still you are putting that forward so much that I thought it was probably the dividend that was the controlling factor with you? A.—No. I merely made the statement.

Q.—It pays 6 per cent. and yours pays 10.

MR. McLAUGHLIN: The National Agency stock was sold at a premium wasn't it? A.—Yes, sold at 125.

MR. TILLEY: Sold at 150? A.—Yes.

Q.—And now being exchanged for Trusts and Guarantee stock at par? A.—Yes.

Q.—And still paying the same dividend? A.—7 per cent.

Q.—Paying 10 per cent., you have not started the 7 have you? A.—Oh yes.

Q.—I thought the 7 was just a resolution passed to come into effect later? A.—No, the last dividend was 7.

Q.—But that change was not by reason of any alteration in the intrinsic value of the stock itself, but because the Commission was going to hold sessions? A.—Yes.

Q.—Then the Reliance Loan Company stock \$10,000. That is taken in I see at 90? A.—Yes.

Q.—And in the previous year it was taken in at par? A.—Yes, that was treated the same way as the Dominion Permanent and the Colonial.

Q.—Do you know what that is worth? A.—I should not put it in the same class as the other loan companies.

Q.—That is with the Dominion Permanent? A.—Yes.

Q.—What interest does it pay? A.—6 per cent. I think.

Q.—So that you put it in at 90 for that reason? A.—I put it in at 90 because we thought it was worth 90.

Q.—You don't know what it would sell for of course? A.—No.

Q.—It is needless to ask you; you would not venture an opinion as to what any of these stocks would sell for? A.—No I couldn't say.

Q.—Then Standard Loan stock \$2,500 taken in at \$2,250? A.—The same price, 90.

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Q.—I suppose there is nothing you can say about that that differs from the other stocks? A.—No, they are all in the same class.

Q.—Sun and Hastings, \$3,100 taken in at \$2,945? A.—That is 95.

Q.—You regarded it as a little better. Does it pay a different rate of interest or what is the particular value of that stock? A.—I think it had a little more surplus, if I remember rightly, in proportion to its liabilities.

Q.—Not at all because of any market value that you know of being better for one stock than the other? A.—No, because none of them are listed.

Q.—Now all those securities were taken in at the end of 1904 at par? A.—Yes.

Q.—In 1905 some were taken in at 90, some at 95 and others at 100. Now what made the difference between 1904 and 1905? A.—Because we wished to make a very strict valuation of our assets last year and we did so.

Q.—You were getting more guarded about valuations? A.—We wished to make a strict valuation.

Q.—That is on a very conservative basis you mean? A.—Yes.

Q.—You wanted to be below the valuation rather than above it if there was any doubt about it? A.—That was the conclusion we came to.

Q.—For that reason did you make any inquiry as to what you would be able to sell these stocks for if you tried to sell them? A.—No, we had no desire to sell them.

Q.—I am not asking you about your desire. A.—I was making that as an explanation, if we had we would have done so.

Q.—But you were trying to put a very conservative valuation you say? A.—Yes.

Q.—This is a list of stocks that might be hard to realize the prices that you have put opposite them, wouldn't it? A.—I couldn't answer that. We have never tried to sell them.

Q.—And you are the one in your company that knows the most about the values of these securities? A.—I should say so.

Q.—Now how do the premiums received by your company in this industrial business compare with the ordinary premiums on insurance? A.—It is very hard to make an exact statement as to that, because the class of business, the class of policy issued is not the same, but they are very considerably higher.

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Q.—Cannot you give me any idea at all? A.—I should say they would be probably 60 or 70 per cent. higher.

Q.—I notice in the minutes of the Maritime Board meeting the statement that they were about 90 per cent. higher than the ordinary premiums? A.—That might be also correct. It would depend on the ages and class of policy considered.

Q.—I see what you mean, that some classes of policy would be a good deal higher and others not quite so much difference between them and the ordinary policies? A.—Yes.

Q.—So it would depend on how many policies were being issued of a particular class? A.—Yes.

Q.—But there are some classes of policies where it would exceed even 90 per cent. advance? A.—I don't think it would go over 90.

Q.—90 per cent. would be about the limit and probably would cover the majority of cases? A.—I should say so.

Q.—And then they might run from 90 down to 80 or 75? A.—Yes.

Q.—That is caused I suppose by the expense of collection is it to a great extent? A.—It is attributed to several causes, first the increase in the expense of collection; secondly, the very large increase in the cost of conducting the business; and third, a very noticeably larger mortality on the industrial business than in the general. Those three causes would generally account for the difference.

Q.—The premiums are collected weekly? A.—Yes.

Q.—And in some cases are very small amounts? A.—Yes.

Q.—What is the smallest? A.—3 cents a week.

Q.—And that would be collected by personal call? A.—Yes.

Q.—Have any complaints ever been made to you by other companies since the Union Life was formed, that this method of carrying on the business, or your method of carrying on the business runs up to the expense without much corresponding advantage? A.—Would you repeat that again please?

Q.—Has any representation ever been made to you since the Union Life was formed or before that, even in the days of the North American, that this method of insurance runs up the expense very high? A.—I don't

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remember ever having had any complaints of that kind made.

Q.—And drives other companies to run up their expenses? A.—No, I never heard that complaint made against industrial insurance.

Q.—Agents are paid very liberally with your method of insurance? A.—They don't think so.

Q.—I think I noticed in one of your circulars that some exceptionally good agent had collected 47 cents insurance premiums on the first day of his business? A.—Will you repeat that again please?

Q.—I thought I read in some of your literature that an exceptionally good agent had written up 47 cents of insurance on the first day he had started in business. That would be good business would it not? A.—If he did he was a good agent. A new agent.

Q.—I don't know that we have the amount right. A.—That will do for the purpose of comparison.

Q.—What might his commission be on that? A.—If that business persisted and did not lapse he would get about \$6.

Q.—In gross do you mean or a week? A.—\$6, an initial payment. And he would get 15 per cent. of that each week for collecting it.

Q.—Then if an agent brings in to you an application for such insurance, the minute he brings it in he gets \$6 does he in cash? A.—No, the applications are sent in and policies issued and one week following the issue of the policy, the special salary as we call it is paid to the agent and that is paid once and he is supposed to maintain that policy in force as long as he remains with the company. If it lapses he has to replace that with 40 cents more premiums to make it good.

Q.—So that a running account would be kept with such an agent? A.—Yes.

Q.—And his account would be credited with what he had earned but probably debited later on if some of it lapsed? A.—Yes. In other words—

Q.—You pay according to his weekly debit? A.—Yes, we pay technically on the increase of the debit.

Q.—You pay the agent on the increase of the debit each week? A.—Yes.

Q.—And you say no charge has ever been made that your efforts to secure business have been increasing the cost or expense of insurance in the regular companies? A.—I don't see how it

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could possibly do so. I never heard of such a contention being made.

Q.—Neither to the Union Life or the North American in respect of its industrial business? A.—No, I never heard of the matter ever being mentioned in connection with industrial insurance in that way.

MR. KENT: Did you engage any of the canvassers who were canvassing for other companies at the time the Union Life was formed? A.—Would you repeat that again please?

Q.—Have you ever engaged any canvasser who up to that time was engaged in canvassing for another company? A.—Oh yes.

Q.—Was that engagement made at an increased remuneration? A.—Well I should not say so generally. A difficulty comes in here, an agent working for another company gets what we call below claiming, that it he has more lapses than new business, consequently he is in the position that the other company will not be paying him special salary. He may leave them and come to us and start clear, or the operation may be reversed, go from our company to another company.

Q.—Then canvassers from other companies have left those companies and come to the Union Life to your knowledge? A.—Yes.

Q.—In order to better their circumstances, their commission? A.—Yes. There are frequent changes by agents, of that sort.

Q.—That is why the complaints, if such have been made, would come from other companies, that you had been—I won't say stealing their agents—but that agents had transferred their allegiance to your company? A.—Yes, but we have a great many more complaints to make of that kind than I could possibly imagine could come from the other side.

MR. TILLEY: The account is in your favor? A.—I should say so.

MR. KENT: I suppose the insurance companies complain, one against the other, that the other does wrong? A.—Yes, but we think we have some pretty strong cases of stealing our agents and general absorption of our business by others.

MR. TILLEY: If Your Honors will pardon me, we are through with Mr. Evans, subject to recalling him later, and for that reason I would like to give Mr. McLaughlin an opportunity

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now if there are any questions he would like asked, if Your Honors would not mind waiting a moment or two longer.

MR. HELLMUTH: Perhaps Your Honors would let me say that Mr. Shepley states that he is going to call an actuary of the company in reference to the business, this particular method of Life Insurance, and in view of that I do not propose to go into the questions of actuarial or industrial insurance with this witness, and therefore I shall practically have nothing further to ask in that view.

MR. McLAUGHLIN: I will reserve most of my questions for the actuary, too.

MR. TILLEY: Is the method that you have adopted, Mr. Evans, in financing this company patterned after any other company that has been in existence? A.—I couldn't say it was patterned after any other company, no.

Q.—Is there any other company or companies whose business is carried on in like manner or in any way resembling this? A.—Almost every industrial company that has been formed in the last 7 or 8 years has been formed under almost identically similar circumstances.

Q.—Would you give us a list of such companies? A.—Yes, there is the Columbian National of Boston, the Boston Mutual of Boston, and the Colonial of Jersey City. Those are the only three that I know of formed in late years that have been at all successful.

Q.—Can you explain in what respect they resemble this? A.—The Boston Mutual has an agency agreement with a company called the Boston Securities Company which is almost identical with ours or very similar.

Q.—Identical with your National Agency Company? A.—Yes. The Boston Securities Company furnishes all the money to conduct the affairs of the Insurance Company, in consideration of a certain premium to be returned to them.

Q.—Would that be more like the relationship of the National Agency with the North American or the relationship of the National Agency with the Union Life? A.—Probably more nearly with the Union Life. The only difference is that it is not a stockholder in the case of the Boston Mutual.

Q.—What is it? A.—Just an Agency argument.

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Q.—A pure agency agreement? A.—Yes.

Q.—Then would it not resemble the North American Life relationship more? A.—No, not quite the same. The Columbian National on the other hand is very similar to ours. The stock is held by the subsidiary company and all the money is put up in order to finance the industrial business. It is quite impossible in any other way to organize an industrial company.

Q.—Is it impossible to get the money in any other way? A.—There are many difficulties in the way and that is the chief one.

Q.—The procuring of the capital? A.—The capital necessary to establish the business.

Q.—To carry it over the initial years? A.—Yes.

Q.—Can you say whether the cost of getting the business has been large as compared with other companies? A.—It has been lower than that of any other industrial company. The Union Life has expended less in proportion to the business done than any other industrial company, including what it has paid to the National Agency Company as commissions.

Q.—I suppose that is probably a matter that Mr. Harvey will be able to speak in a more general way about than you? A.—Yes, probably more specifically also.

Q.—For that reason I was not asking you about that.

MR. McLAUGHLIN: I would like him asked whether he has made a comparison of his company and its progress with the British companies?

MR. TILLEY: We would have to check that before we could put it in.

MR. McLAUGHLIN: I submit that any questions he is asked, the witness ought to have the liberty of stating it and stating that this document is a document he has prepared and that it is true. He is the man who is swearing to it, not my learned friend. He has compared the progress of his company with the British companies.

MR. TILLEY: Can you say how provision is made for getting the expense of establishing business in the case of British companies? A.—Yes, under the Act under which the British Life Insurance Companies operate, the industrial companies are permitted to carry in their assets a large proportion of the deficiency or the expense

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of establishing their industrial branches and I have a table here in which there are 9 or 10 British companies who are carrying items of that sort. One, the largest, the London, Edinburgh and Glasgow, in business since 1881, is carrying over a million and a half in its assets as the cost of establishing the industrial business today.

MR. SHEPLEY: Those figures will be found in the Board of Trade returns. A.—Yes, and that is 25 years ago.

MR. TILLEY: Will you be able to compare the lapse ratio of your company with other companies better than Mr. Harvey or not? A.—Well, Mr. Harvey might be able to do it equally as well as I could.

Q.—Would you like to say anything about that yourself? A.—The lapse ratio is about 14 per cent. lower in the Union Life than any other industrial company in Canada and very much more so than the companies operating in the United States. Our initial premiums for instance give you an illustration of that. The new business which is put on the books is of course the business which goes off the most rapidly and costs the company the greatest amount to put on. The persistency of our new business is nearly nine weeks; 8.83 weeks. The persistency of the business of the Metropolitan, from the statement of Mr. Fisk, Vice-President of the Company, on record, is 6.02 weeks; and the Prudential about 7 weeks. So we have a persistency of 2 weeks or more than 33 1-3 per cent., which makes an enormous difference on a business of 4 or 5 million policies.

Q.—What have you to say about death rate, in the same way? A.—Our death rate has averaged about 15.70 per cent. as against their 27 to 30 or 33 per cent. of other companies.

Q.—On that again Mr. Harvey will be able to make a broader comparison than you can? A.—Yes, he will be able to give that very accurately.

Q.—What is the total amount of business on your books? A.—\$7,162,000 of business in force and paid for.

Q.—As of when? A.—31st December last year.

Q.—That will be in your returns then? A.—Yes.

(Adjourned to 10.30 a.m. on Thursday 10th day of May.)

Union Life Insurance Co.
(Harry Symons, ex'd)

TWENTY-FOURTH DAY:

MORNING SESSION.

Toronto, May 10th, 1906.

HARRY SYMONS, sworn, examined by

MR. SHEPLEY: Q.—You are an officer in each of these two companies? A.—Yes; I am President and General counsel and director of the National Agency, and general counsel and secretary and director of the Union Life.

Q.—Were you one of the promoters of the National Agency Company? A.—I should say so, yes. I acted as solicitor originally, and I suppose I would be classed as one of the promoters.

Q.—Having an interest beyond your mere professional connection with it? A.—Exactly.

Q.—Had you any prior connection with the North American Life? A.—No.

Q.—Who introduced the subject to you? A.—Mr. Evans.

Q.—You took part in the negotiations which led up to the formation of the company, including the negotiations with the North American Life? A.—Not altogether, I had nothing to do with the agreement made between the North American Life and Mr. Evans, except, I should say this, when Mr. Evans spoke to me first on the subject it was all in embryo nothing had been reduced to writing, and I advised him his course would be to have the matter put into the shape of an agreement between him and the company, which was ultimately done; but I had no part in the framing of that agreement.

Q.—That was the agreement in which the formation of a company to take over the Provident branch was contemplated? A.—Yes, I told him as soon as that agreement was consummated then I would be prepared to assist him in forming a company.

Q.—(Referring to Exhibit 92) This is the agreement as to which you told Mr. Evans that when the matter was put in shape by such an agreement as this you would be prepared to take it up? A.—Yes.

Q.—That was the agreement of the 7th November between the North American Life and Mr. Evans by which the North American, after reciting there was to be a capital of \$25,000

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in the new company, it went on to provide that the North American as soon as the organization should be completed and the capital paid in cash and shown to be available would transfer to the newly organized company the Provident branch? A.—I am familiar with that.

Q.—You had nothing to do with the revision or settling of the terms of this agreement? A.—No; that was arranged, so I was advised, by the late Mr. McCabe and Mr. Evans.

Q.—At the time Mr. Evans first approached you, and when you said that you would take the matter up upon it being put in this shape was the idea then that you should have an interest beyond your professional connection with the company to be formed? A.—I expected to.

Q.—But was anything said about it? A.—Well, no, there was nothing said about it; at that time I hardly thought there was enough in it in solicitor's fees to worry about it, and I indicated in an important matter of that kind if I took the matter up at all I would expect to have some additional interest in it.

Q.—That was your suggestion to Mr. Evans and you expected to have some interest not defined at all? A.—Undefined.

Q.—In such a company; upon the completion of the agreement between Mr. Evans and the North American Life what was the first matter which you had to take up? A.—It was as to formation of the company, obtaining the subscriptions for the stock, and the best course to proceed in that respect.

Q.—I see the contemplated share capital according to the agreement between Mr. Evans and the company was \$25,000? A.—That was to be paid up in cash.

Q.—That was to be all paid up in cash? A.—Before the Provident Branch of the business would be transferred there was to be \$25,000 in the bank.

Q.—The agreement of course states that the capital of the company was to be \$25,000? A.—Yes.

Q.—You do not suggest, or do you, anything to the contrary of what appears in the document? A.—No.

Q.—You set about the formation of the company, that is obtaining its charter? A.—Yes.

Q.—You prepared the usual papers I suppose to get letters patent? A.—Of course the first proceeding was to

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endeavor to interest people even before the papers were prepared on which to obtain the letters patent, and between us we did interview several people I endeavored to interest in the matter I thought of sufficient importance, and then we met with success as justified our applying for the letters patent incorporating the company.

Q.—Did you yourself interview various people who afterwards did become shareholders? A.—Yes.

Q.—And you explained of course to them the object with which the company was being formed and what would be done? A.—Yes.

Q.—Speaking broadly and generally tell me what your statements were? A.—That I thought the Provident business of the North American was capable of extension to the advantage of shareholders, that it was something in which money might be put with a reasonable prospect of a good return. My understanding was that the North American did not care to set apart any further sums of money for the purpose of extending the business. I looked into it somewhat, as best I could as a layman, as to the character of the business, and it occurred to me—

Q.—Do you mean by that the character of the business which the North American was carrying on in this branch? A.—Yes, and it looked to me like very good business, otherwise I should not have become associated with it. I desired first of all to satisfy myself on that point, and if my recollection serves me right—I think it does—I brought the matter up to some other life insurance men to see what they thought of that class of business, being a stranger to me, and I met with encouragement, and I unhesitatingly brought it up before some of my friends and clients that I thought would like to go into it.

Q.—You are telling me in a general way the statements you made with respect to the objects of the company, with respect to its prospects, to those whom you endeavored to interest? A.—Exactly.

Q.—You had not, I suppose, before that made any study of the branch of insurance known as Industrial Insurance? A.—No.

Q.—Were you alive to the fundamental difference between that system of insurance and the line companies? A.—No. Of course I had had experience professionally in connection with

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life insurance matters, but not with special reference to industrial. It looked to me like a very interesting study, something that should be studied, but that is a matter of opinion, of course.

Q.—Mr. Evans, I suppose, was familiar with the subject? A.—I thought so.

Q.—And I suppose it is not saying anything to anybody's discredit to say that you probably relied a good deal upon him? A.—I may say this, that I did discuss the matter with Mr. McCabe, and I think Mr. Goldman, and some others, as to Mr. Evans' standing and so on, satisfied myself that his representations might be relied upon.

Q.—And in that way you partially at all events qualified yourself to explain the nature of the business to others? A.—Yes, certainly.

Q.—You say you did meet with such success as justified you in drawing the papers for the charter? A.—Yes.

Q.—Was there anybody else besides yourself and Mr. Evans who moulded the company or assisted in moulding it? A.—We had, I think, the assistance of Mr. A. E. Plummer and Mr. James O. Buchanan.

Q.—They are not insurance men? A.—No, they are brokers.

Q.—And the assistance they gave you was perhaps more in the direction of finance? A.—Exactly.

Q.—I am rather concerned now with the shape which you put the company in, with the objects for which you declared it was being incorporated, and so on, rather than with— A.—No, I did not; I acted on my own judgment in view of the agreement between Mr. Evans and the North American.

Q.—Just at that point let me point this out to you; you will of course have observed that the language of this agreement is that the North American Life Company will transfer to the newly organized company that part of the business as a going concern known as the Provident Branch, subject to the terms and conditions hereinafter stated—that contemplated a transfer of the whole business of the branch? A.—Yes, I understood they were to turn over that branch together with what they call the plant.

Q.—In other words, the new company was to be the proprietor of this business when the agreement was carried out? A.—Yes, they were to be the owners.

Q.—You say you yourself exercised your own judgment? A.—Might I be allowed to make a little explanation; I may say, owner so far as the control is concerned; of course the ostensible owner would be the North American, but the equitable owner would be the company formed.

Q.—You are perhaps introducing your own reasoning upon that? A.—Yes, that is exactly my reasoning. I may be wrong in my legal conclusion, but that is what impressed me.

Q.—For some reason, which perhaps you will tell me a little later, it appeared to you that the most judicious way of carrying out the arrangement which Mr. Evans had made with the North American Life was to incorporate a company which would be the ostensible agent while the real owner? A.—Yes, exactly.

Q.—The real ownership idea was still to be the foundation idea so far as the reality was concerned? A.—Yes, I think I understand you.

Q.—But so far as the appearance to be put upon the transaction was concerned, the real owner was to be the ostensible agent? A.—Well, yes, I suppose that is the way it could be put.

Q.—Let me ask you why you thought that a transaction put into that shape would have advantages over a transaction put into the shape which the agreement contemplated? A.—That more capital could be procured to extend the business, that particular business.

Q.—That subscriptions to capital would be more free to a company which did not appear to own than to a company which did appear to own an insurance business. A.—Not exactly that; of course the contemplated company could not issue policies for the North American. You will understand at that time the North American insisted upon keeping the business provided it was taken up by a company strong enough to carry out the terms of the agreement; there was no intention of forming an agency company with the idea of misleading the public or anything of that sort.

Q.—I have not suggested that; for the moment at all events I am assuming you were actuated by the most honest and fair intentions; I want to get at the reasons why you adopted one form rather than the other, in other words why you incorporated the

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Agency Company rather than an owning company, and you have told me that was for one reason because of the ability in that way to get more capital subscribed? A.—Of course I had no precedent to govern, so to speak, in the matter, and it certainly seemed to me as a lawyer that it was a proper thing for the corporation of a company as an agency company to control a business of this kind and furnish the capital necessary, at the same time doing everything as agent for the issuing company, so to speak.

Q.—That is ostensible agent? A.—Yes.

Q.—That is perhaps not at all expanding the idea you gave me a moment ago? A.—It is a little more than ostensible because the new company was to be the actual agent.

Q.—Did you take it under this agreement with Mr. Evans? A.—Yes.

Q.—Be good enough to point out to me what language you rely on in this agreement for that view? A.—That must be so.

Q.—I want to get just where it is, just the point at which you say the language of the document justifies that view? A.—I do not know that I could point to any specific language in the agreement. I gathered that to be the effect of the agreement that the new company would have to act as agent for the North American naturally, and represent themselves as such. The new company would of course have the employment of their sub-agents; those sub-agents would have to represent the North American, they could not represent the new company to the public.

Q.—Assuming both companies to be equally solvent, and assuming the business to have failed for reasons inherent in the business itself, whose loss would it have been after the agreement was carried out? A.—It would have been the new company's loss.

Q.—That seems to me a fair test of what the actual ownership was? A.—Yes. We had to reimburse a certain amount of money to the North American that they expended, and having done that if the new company had failed that would have disappeared.

Q.—If the business succeeded it would have been to the benefit of the new company? A.—Yes.

Q.—Let us return to the point we diverged from; your idea was the stock proposition would be more attractive if the agency form were adhered to

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rather than the ownership form of the transaction? A.—Yes.

Q.—And I had asked you why you took the view that capital would be more attracted by that form than by the other? A.—We could not assume the ownership form without forming an insurance company; that was another feature.

Q.—That is if your documents had assumed the form of ownership in substance you would be an insurance company? A.—Yes.

Q.—You quite realize that? A.—Yes, and personally I should have sooner they formed the insurance company then and there to have taken over the business if the North American had been willing but at that time they were not; they wanted simply to carry out the terms of the agreement with Mr. Evans and make what there was in it.

Q.—You quite realized at that time that the other form would be equivalent to doing the business of insurance? A.—Certainly, it must be so.

Q.—That form being adopted, involving as it would have involved the doing of an insurance business, was not likely to appeal to the investing public? A.—I did not consider that because we were shut out of forming an insurance company, but I would say this, although I do not suppose it is very pertinent, that if a Life Insurance company is formed and has already a nucleus of a business, then that would appeal to the public on subscriptions for stock; suppose, for instance, the Union Life had gone to the public with the business already obtained by the National Agency Company from the North American Life, it would have had a very substantial nucleus of business to offer to the public and encourage subscriptions.

Q.—I will accept your idea for the time being, not accepting your illustration. Your idea is if the public sees a going business with some present margin or prospective margin of profit that is a proposition that the public would assent to? A.—That is a better way of putting it.

Q.—Your charter of course speaks for itself, and the power you took in the charter was the power to act as managing agent for insurance companies? A.—Yes.

Q.—Was it your view that a charter expressed in those terms would permit

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you to carry out the agreement which Mr. Evans had made with the North American Life? A.—I did think so then.

Q.—You thought that the entering into an agreement in the terms contemplated between Mr. McCabe and Mr. Evans would be within the powers of a company such as the company you formed? A.—Yes, I thought so.

Q.—Then are you able to say just in a general fashion how you got on with your stock subscriptions by the time fixed for the agreement? A.—Well, not very successfully. It did not meet with the encouragement that I had hoped. There was almost an interregnum of months before we could reach people who felt interested enough, and consequently I think there had to be one or two extensions of time of that agreement. Then I required Mr. Evans to transfer the agreement to the National Trust, to hold for the benefit of subscribers to form the basis for subscriptions, and then ultimately Mr. Evans, not me, I must confess, was able to convince some people that this was a business that could be taken up with advantage and he secured enough subscriptions to enable use to go ahead.

Q.—The only thing that I want you to add to what you have said before I go to the next point is this: you say you procured Mr. Evans to make some conveyance? A.—Yes.

Q.—We will look at that for the moment; that is Exhibit 96, and was made on the 2nd January, 1901, between Evans and the National Trust Company, hereinafter called the trustee. It recites the agreement between the North American Life and Mr. Evans; it recites that Mr. Evans has already progressed towards the organization of the proposed company, and intends to continue in the same, and for that purpose has requested the Trust Company to hold the said agreement and all benefits to be derived therefrom in trust to be vested in the proposed company. Then follows the conveyance, as you say, to the National Trust Company, to hold as trustee for the company to be formed? A. Yes.

Q.—And the object of that was what? A.—That was to secure the subscribers.

Q.—That was to make it manifest that in a trust company which was known a certain agreement or contractual rights had been vested? A.—Yes.

Q.—Which were to form the property of the company when it came into existence? A.—Yes.

Q.—That was for the purpose of influencing subscriptions? A.—I would not like to say that; I thought that was the proper way to put it, the straight business so to speak.

Q.—I suppose it was perfectly legitimate to do that to start with, was it not, and if the result was to induce people to subscribe to stock it did not make it wrong? A.—Oh, no. Perhaps they might have found fault if I had not insisted on that if the original agreement was not forthcoming later on.

Q.—By what time had you become able to go on? A.—The next step I think was the incorporation of the company, and subscriptions were solicited, and we had enough subscriptions of money obtained I think by July or August of the year following the year in which the incorporation was granted to enable us to carry out the agreement with the North American. Then we called a general meeting of subscribers, organized the company, and took up the agreement with the North American.

Q.—Your first meeting I think was held in August? A.—I think that was the date.

Q.—On the 22nd August I see in these minutes which I am going to take, other than the minutes of the shareholders, the minutes of the Executive Committee? A.—The Executive Committee minutes after the general meeting, are they not?

Q.—Yes, but on the same day; (Exhibit 111); the Executive Committee were the three of you? A.—Yes.

Q.—You had been elected by the Board after its being elected by the shareholders? A.—Yes.

Q.—Can you tell me how much stock had then been subscribed? A.—I do not know that I like to hazard a guess, but I would venture to say it was all or about all, the whole capital.

Q.—Do you mean the whole capital of \$100,000? A.—Yes, because we had made a call of 25 per cent. and obtained the \$25,000 so obviously there must have been the \$100,000 subscribed.

Q.—And had that stock all been subscribed at par? A.—Some of it, not all of it.

Q.—Was there any stock that was subscribed at a premium before this organization meeting? A.—I think

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so, I think the dates speak for themselves, I think I am right in that.

Q.—What was the reason for making a difference between those who came in before the organization? A.—The reason was this, that those who went in originally had to take their chances, so to speak—we all put up money, performed services, we had undertaken expenditures in the way of travelling expenses and office expenses and so on which we thought would reasonably entitle us to obtain our stock at par originally, and I think you will find, although I have not looked at the papers since, that the original stock subscription list that was put in filed with the Provincial Secretary's Department indicates that the stocks applied for at that time were applied for simply by those named in the letters patent, and for a small amount it is true, but we had all obligated ourselves, and took our chances on the matter being made a success ultimately, and naturally the stock subscribed would be at par.

Q.—And the stock that was first subscribed, speaking substantially, was among those who were afterwards in charge of the business of the company? A.—Yes.

Q.—In other words the directors? A.—Yes.

Q.—You say a 25 per cent. call had been made upon all? A.—Yes.

Q.—And that produced \$25,000? A.—Yes.

Q.—And then there had been besides whatever had been called on premium—how was that? A.—I could not say, that would go in.

Q.—What I want to get at is this would the premium of 25 per cent. all be paid and 25 per cent. upon the capital, or would there be 25 per cent. upon the capital and premium? A.—I don't know that I quite grasp your question, unless it is in this way; we made a call of 25 per cent. and put the price of stock at 125, so that it would be \$32.50 per share that would be paid. Out of that \$25,000 that we had to have in the bank in order to satisfy the North American, it is quite possible there might have been some of it premium to make up.

Q.—I think you have answered the question, you have said you took the stock at 125 where it had been issued at a premium, and you took one-quarter of that? A.—Yes.

Q.—That would be 25 per cent. then upon capital and premium? A.—Certainly.

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Q.—And in that way in the moneys you had in hand you would have represented a part of 25 per cent. of the capital and a part of 25 per cent. of the premium? A.—Yes.

Q.—Then we can get accurately just what stock had then been subscribed. I see at page 4 of these minutes this statement which probably will throw light upon what you have just been telling me: "New stock issue. The circular letter sent with forms of application and summary report," etc. (Reads down to the words "25 per cent. premium for the present").—that was in respect of additional issue of stock to that authorized by your first letters patent, was it? A.—That is looking to an increase of capital?

Q.—Yes? A.—Possibly that is so; we probably made up our minds to the fact that \$25,000 would not be sufficient to run the business, deducting the amount out of it to which the North American Life would be entitled. I may say this that we naturally, being in a preliminary condition, desired to know what view the public would take in the matter before proceeding to apply for an increased capital. If the response would be generous naturally we would apply; if not it would be otherwise.

Q.—(Referring to Exhibit 29); I see your capital was authorized to be increased to \$500,000 on the 28th August? A.—Yes; we no doubt satisfied ourselves at that time that the applications would come.

Q.—On the 20th September the approval took place, the increase of capital having been authorized on the 28th of the preceding month? A.—Yes.

Q.—At that time you had taken authority from the Governor in Council to issue another \$400,000 of stock? A.—Yes.

Q.—And the resolution would be with reference to that? A.—Yes.

Q.—The resolution was contemplating issuing \$100,000 out of the additional \$400,000? A.—Yes.

Q.—Among the papers which you were good enough to give me yesterday is there a copy of the circular letter which is referred to there? A.—I have made diligent search for these old papers and I have not been able to find them. They were either all distributed or none kept.

Q.—You have not been able to find one? A.—No.

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Q.—You have found a copy of the prospectus? A.—Yes.

Q.—I think you told me yesterday this was the original prospectus? A.—That is the first prospectus of all. That was the second one. (Filed as Exhibit 113.)

Q.—It refers to the first general meeting of the company held on the 22nd August? A.—Yes.

Q.—And this was the prospectus issued to the public upon which they were being asked to subscribe to the additional \$100,000? A.—I take it that is the one.

Q.—The prospectus in the first place states that “the organization of the National Agency Company was decided upon as the result of negotiations with the North American Life, which company had been conducting for some time what was known as the Provident Branch of its business. Policies were issued in that branch for small sums for \$100 upwards, and the premiums were payable monthly. It was found that the extension of the general business of the North American Life into the United States, added to its rapid growth in Canada occupied so fully the time and attention of the Executive officers that it was impossible to do justice to the demands of the provident business?” A.—That is historical.

Q.—That language is paraphrased by the language which you used this morning that the North American Life was unwilling to devote any further funds to the extension of this branch of the business? A.—Yes.

Q.—“It was considered by the manager of the branch”—that is Mr. Evans? A.—Yes.

Q.—“That the interests of the business would be better served,” etc. (Reads down to the words “In the hands of the North American Life”)—what was meant by the “Statutory control of the business according to Governmental requirements”? A.—That they were willing to do everything that was necessary under The Insurance Act in the way of making the annual returns connected with the provident business, furnishing the requirements were concerned a nominal statutory control of the business on the part of the North American Life Company while the real interest and ownership was vested in the National Agency? A.—Certainly.

Q.—That is what it meant? A.—Yes

Q.—“This course was adopted,” etc. (Reads to the words “Insurance Company”) A.—That would be the agree-

ment of 7th August, 1901, this one (Exhibit 93).

Q.—That was the agreement that was entered into after the transaction was consummated by having the \$25,000 in hand? A.—Yes.

Q.—Now Mr. Symons, I ask you whether in making the statement we have just been referring to here, you were alive to the fact that if the National Agency Company had professed to be conducting an insurance business, it would have been a violation of the law? A.—Certainly.

Q.—Then, “At a general meeting of the Agency Company held August 22nd, 1901, at which over 90 per cent. of the stockholders were represented, this agreement was unanimously confirmed, which is evidence of the satisfaction with which the position of the Agency Company is regarded by its shareholders.” Who were present at the meeting? A.—You will find that in the minute book.

Q.—The shareholders’ minute book of the National Agency Company. A.—There were present in person, taking the order of the signatures here, myself, Mr. Charles Percy of Montreal, Dr. G. E. Millichamp of Toronto, Mr. John Tucker of St. Catharines, Mr. H. Pollman Evans of Toronto, Mr. F. H. Nicholls of Toronto. Then there were represented by proxy those that are named here.

Q.—Certain others, who are said in the prospectus to have constituted altogether, with those present in person, 90 per cent. of those who had actually subscribed? A.—Yes.

Q.—Of those who were actually present how many were officially connected with the company? A.—Four I think.

Q.—That is four out of six who were actually present were Directors of the company? A.—Yes.

Q.—I see that the shareholders who were present all signed on the first page of these minutes. It strikes me as being unusual in practice, do you remember how that came to be done? A.—That has always been my practice in every general meeting with which I have anything to do, when shareholders are present that they sign a register; and I think it has been the prevailing practice in any companies in which I am a shareholder and have been present.

Q.—That is the reason why you had it done in this case. Is it right to say that in respect of matters of that sort it was your idea that prevailed in res-

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pect of the practice at this meeting?
A.—Yes.

Q.—Then, so that I need not trouble you about it again, I see that it was a very common thing at shareholders' meetings to have a typewritten resolution passed by the shareholders ratifying and adopting everything that had been done since the last general meeting? A.—Yes.

Q.—For instance at page 23 of the shareholders' minute book: "It was moved and seconded that all and every the actions heretofore taken by the Board of Directors and Executive Committee, and the members thereof in connection with this company, including the correspondence, prospectuses, printed or other typewritten matter sent or issued by them, and as well the matters set out in the minutes of their respective meetings as shown in their respective minute books from the 22nd August last until the date of this meeting inclusive, be and the same are hereby ratified to all intents and purposes. Carried unanimously." That was also apparently customary? A.—Yes.

Q.—You import that also from practice in other companies with which you are connected? A.—Yes, a general ratification. First of all the Board ratifies what the Executive has done, and then the shareholders ratify whatever appears in the minute books of the other companies.

Q.—And even correspondence is ratified? A.—Yes.

Q.—And even the individual actions of members of the Board, and the Executive Committee? A.—Yes.

Q.—That is going pretty far of course? A.—Well, it is going a good deal, but it seems to be the proper thing.

Q.—I won't ask you what your opinion would be if some matter that was not disclosed was afterwards objected to, whether such a resolution as that would bind anybody? A.—Well of course at these general meetings everybody is open to discuss the resolutions, and I think you will find on two or three occasions in our notices we have expressly put that it is to ratify and confirm the action of the Executive Committee and Board of Directors.

Q.—That prospectus goes on to say that at that meeting it was found that the capital of \$100,000 was largely over-applied for at a premium of 25 per cent. Upon what fact set out in any of the minutes of that meeting is that statement made? A.—It may

not be in the minutes. It was from our knowledge.

Q.—I have not seen it if it is in the minutes. It is quite possible that I have missed it, and I would like to find it if it is there? A.—Yes, it is in the report.

Q.—Let us see what the statement in the report is. "More capital however can be used to your advantage in aiding the extension of the business and adding to the reserves, and a by-law to increase the capital stock, as indicated in the prospectus, to \$500,000, divided into 5,000 shares of \$100 each, will be submitted for your approval. Applications for part of the increase are already in hand, and indications point to the whole being applied for at an early date." Of course we can find out accurately, but can you say approximately how much stock was applied for in excess of the first \$100,000? A.—I would not like to venture to say. It was the fact at all events.

Q.—This was the fact, that applications for a part were already in hand? A.—I know there were applications held.

Q.—The statement in the prospectus is that it was found that capital was largely over-applied for at a premium of 25 per cent. It was not stated that the Directors of the company had a right to shares at par? A.—No.

Q.—Or that the Directors of the company had only paid par for their stock, whatever it might be? A.—No.

Q.—Then the prospectus proceeds: "And that the position of the company might be exceptionally strong, so as to attract the best class of representatives for the extension of the business most economically and be able to take advantage of opportunities constantly being presented, it was decided to increase the capital to \$500,000, and supplementary letters patent have since been issued confirming this action." I pause again there Mr. Symons, and I ask you what is the meaning of the language that the position of the company might be exceptionally strong, so as to attract the best class of representatives for the extension of the business most economically, what is the meaning of that language? A.—I take it that meant the agency staff.

Q.—The Agency staff engaged in the canvassing business? A.—Yes. Na-

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turally if it is a strong company you can get stronger and better men than you could in a weak company.

Q.—That is pointing of course towards increasing the business of doing insurance? A.—Yes.

Q.—Not so far as we have got pointing at all towards any increase in the number of agencies which your company would hold? A.—Well, I would not like to say about that. You mean agencies for the Provident branch business?

Q.—Agencies for insurance companies, managing agents for insurance companies? A.—Well, it may have contemplated, and possibly did at that time, associating an accident company with the business.

Q.—That is perhaps referred to in the next paragraph. I want to get the meaning of this by itself if you are able to agree with me about it. That paragraph from the third line, the word “and that the position” down to the sixth line, the word “economically,” that paragraph seems to me, and I ask you whether it is not so, to be pointed solely and exclusively to the increase of the business of insurance? A.—I think that looked to the increase of the business.

Q.—To the increase of the insurance business? A.—Yes.

Q.—Well then the next paragraph: “And to be able to take advantage of opportunities constantly being presented.” To what would you say that looked? A.—I should say that looked to the opening of branches.

Q.—To the opening of branches for the business of insurance? A.—I should think so.

Q.—Still for the business of insurance? A.—With the \$100,000 only subscribed we felt ourselves cramped in that. I think it became speedily noticeable that \$25,000 was not enough to run that business.

Q.—That you would observe before you took out the charter, because instead of \$25,000 as in the Evans agreement, you incorporated the company with a capital stock of \$100,000? A.—Well, the expense was practically no more, and it was just as well to have a capital of \$100,000 as \$25,000. If \$25,000 had been sufficient for the business there would have been no more calls.

Q.—Of course I can understand this, that if I start out into a field for my own benefit and advantage to employ a staff of canvassers and secure the business of insurance that is a very

expensive matter, but if I hold myself out to insurance companies as an agent who will work for them on commission, that is quite a different proposition so far as expense is concerned? A.—Yes, quite different.

Q.—Perhaps \$25000 capital would be quite ample in the latter case? A.—Yes.

Q.—In the former it would be ridiculously inadequate—or I will withdraw the word ridiculous? A.—Well, it would be inadequate, that is enough.

Q.—It would be very largely inadequate? A.—Yes. And even the other might be inadequate as it turned out.

Q.—Then, “the company has already established an excellent agency force, and a large volume of Provident business is being transacted.” That was true of course? A.—Exactly. That was quite true.

Q.—You had improved the nucleus which had been handed over by the North American? A.—Oh yes, very much so.

Q.—Very considerably improved? A.—Yes, a perceptible jump.

Q.—Then, “Negotiations are being concluded for effecting several large transactions with employers of labor which, it is expected, will more than double the business in a short time, and the extension of the company’s regular agency force throughout Canada is being proceeded with.” Were such negotiations on foot as were spoken of there? A.—Yes.

Q.—That would be part of the struggle towards expansion? A.—Yes, the idea was, if I may be allowed to intervene, we thought it feasible to join together both the life and the accident by the issue of policies of two companies concurrently. That is to say, a man could pay a premium of a certain amount, and by that means secure not only a policy of life in the North American, but also accident in the Canada Accident, or any other company, he could have his choice. At that time we were actually in touch with several large institutions, especially in Montreal, and I think also in Toronto, yes, with that in view so as to bring them all in, but ultimately there was no success in that.

Q.—Then you refer to Provident or industrial insurance in Canada. “In 1885 industrial insurance was unknown in Canada. In 1895 the total number of industrial policies in force

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was 23,345. In 1900 the figures were 144,601, or over six times greater."

A.—That was the information furnished; I could not tell you about that. That is a matter of research.

Q.—That information was not within your knowledge? A.—No.

Q.—It was furnished by whom? A.—I expect it was furnished by Mr. Evans as being the insurance expert in this connection.

Q.—"Even with this striking increase we are still far behind other countries as regards the proportion of our people carrying industrial insurance." Then there are some comparisons made. I suppose these figures also were furnished by someone else. "The success attained by the two companies engaged in the business in this country is strikingly shown by the fact that the average amount of insurance written by these companies in 1900 was over five millions, while the average at the same time of 33 companies doing general insurance was \$1,770,000."

A.—I have no knowledge of that. That is all gleaned from the returns.

Q.—What two companies, Canadian companies do you refer to in that? A.—The Canadian companies, I take it, would be—may I answer the question by referring to someone else?—the Metropolitan and London Life.

Q.—Your prospectus then states that accurately, "only one Canadian and one foreign company being actually engaged in the business." Then just before I leave the question of industrial insurance and its vogue in Canada, your industrial insurance has been very largely upon what I would call infant lives? A.—Yes.

Q.—I don't see any reference to that fact in the prospectus? A.—Well, I should not like to say now without inquiry as to whether we actually did cover with the monthly policy, children under ten years of age. We may have done so, but if so it would be regarded as part of the industrial. I couldn't tell you.

Q.—I do not want to take that up now, but perhaps you would go with me this far, that there are two opinions upon the subject of infant insurance? A.—Oh, yes.

Q.—It would be quite a proper thing that if you were asking a man who did not know much about industrial insurance to put his money into it, to tell him about the fact that that would cover infant lives if the fact were so? A.—That might come up in matters of discussion. I don't suppose it

would be necessary to spread that out in the prospectus.

Q.—That is a question that neither you nor I can determine? A.—No.

Q.—But at all events it is not referred to in any shape at all, and I think from the glance I have given to the literature it was never mentioned in any of your literature? A.—I think not, no.

Q.—I won't discuss that question at present, but I just want to get that fact. Then you go on to say: "It will be seen that this company occupies an advantageous position from the connection it has already formed, and although on this account the stock should command a higher premium, the first issue having been over-applied for at a premium of 25 per cent., it has been decided not to increase it at present, but to offer investors a further opportunity of acquiring an interest by subscribing for the second issue now made of \$100,000 at the same premium, it being understood that any further issues may be subject to an increased rate." What circumstances do you think justified the issue at a premium of 25? A.—Well, as the value of the business that had been acquired. It was a going concern, there had been certain expenditures in connection with it, and it could have been sold out at a profit.

Q.—You mean at this time? A.—Yes, to another concern.

Q.—What do you mean by sold out at a profit? A.—The National Agency could have turned over this agreement.

Q.—I am speaking of the 22nd of August; you know you had just got the Provident branch from the North American Life? A.—Yes, well we had the fixed opinion at least in our minds that we could have turned over that agreement with the North American Life to another company and made a profit out of it.

Q.—What do you mean by made a profit? A.—Sold it at an advance.

Q.—You were paying between four and five thousand dollars to the North American? A.—Yes.

Q.—And you could have sold it for more? A.—Yes, and for that reason, and looking upon it as an established business we thought ourselves perfectly justified in placing that stock at a premium.

Q.—I do not mean at all to say or suggest that that was the sole consideration, but you were getting

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for a business which required an immediate outlay of four or five thousand dollars, and that you could sell at a profit above that, you were getting or had got \$125,000 capital subscribed? A.—Yes.

Q.—And you were asking for more capital, and asking for a premium upon that also? A.—Yes.

Q.—What I want to get at is how in dealing with what at that time was a matter the market value of which was probably fixed by the agreement between the North American and ourselves, how you could justify the payment of a premium? A.—Oh well, we thought the business was worth it, that was the only justification. I suppose any stock that is offered at a premium, take a bank that floats and there is nothing to show, and asks for a premium, it is pretty difficult to substantiate or make good their position, but in this particular instance we had a substantive thing to offer.

Q.—Well then, you were reserving to yourselves the right to put a higher premium on any other issues. That perhaps was not an unjustifiable way of stimulating the investor? A.—Quite reasonable.

Q.—“They are selling at 125 now, they are going to charge more in the future, I had better snap up this stock at 125.” Then you say, “It may be mentioned that the agreement with the North American Life Insurance Company contemplates substantial dividends to the shareholders of this company, but the Assurance Company shall participate in the profits. Special information on this point will be furnished on reference to the head office.” Now let us look at the clause in the contract to which that refers. Take the agreement between the two companies? A.—Sub-section A of clause 3.

Q.—“The said agency Company agrees to pay the Insurance Company a portion of the net surplus accumulations from the business under the following conditions.” In the first place what is meant by “net surplus accumulations?” A.—Well, that is a technical insurance expression that I would not like to determine.

Q.—“A. That no payments under this clause shall be made unless and until an annual dividend of 10 per cent has been paid according to the laws of Ontario on the paid-up capital stock in the Agency Company.” Then after such dividend has been paid, “the insurance company shall

be entitled to a payment equal to 20 per cent of the net surplus remaining in hand.” Then there are certain other percentages in following years. That is the provision to which you refer? A.—Yes.

Q.—The question whether or not your shareholders would get a dividend at all, let alone a dividend of 10 per cent, would depend upon whether or not the business were made so profitable that there was a surplus accumulation at all, there must first be a surplus accumulation? A.—Under that agreement with the North American.

Q.—Before your people could get any dividend there must be a surplus accumulation? A.—Yes.

Q.—Then out of the surplus accumulation you take until your shareholders get 10 per cent? A.—Yes, that is as between the shareholders and the North American.

Q.—Then you pay certain percentages on the balance to the North American Life? A.—Yes, of course that is as to the relationship between the two companies.

Q.—“As no conditions exist which necessitates the paying in of all the authorized capital of the company, it has been decided to call for only 25 per cent of the subscribed stock which with its proper proportion of the premium will make in all 31½ per cent of the amount subscribed payable at the time of the application.” What did you mean by that? A.—At that time we did not contemplate calling more than 25 per cent.

Q.—You say no conditions exist which necessitate the payment? A.—Yes, that is just the actual fact.

Q.—Did you mean that no conditions then existed or did you mean that under no condition would it be necessary to call up? A.—Oh no, as then existing. No one can govern the future of course.

Q.—Of course if you had chosen you could have got this 25 per cent. by making a call upon the capital you already had? A.—Oh yes.

Q.—What is the advantage if you want \$25,000 in issuing \$100,000 of stock, over making a call upon the already subscribed \$100,000? A.—I think that must be apparent. It is a more substantial character if the capital of a company is \$100,000 or \$500,000, especially when the stock is issued at a premium it gives it a more substantial character, there is no question about that, and then if any changes

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do occur necessitating further calls, why then it is available. But at that time it was quite clear in our minds, and it was the actual fact that we did not contemplate that it would be necessary to make any further call.

Q.—Was there this objection to your calling up another 25 per cent. upon the old stock, that the then existing shareholders were under the belief, whether rightly or wrongly, that no more was to be called up? A.—Oh, I don't think so. I couldn't say as to that. I think it is the natural sequence of events that a company desiring more capital, the shareholders rather than call upon themselves to pay more will sell more stock and increase their capital as may be necessary for that purpose.

Q.—That is not exactly what I am referring to. What I want to get at is, had you any reason to believe when this prospectus was compared that the existing shareholders, the then existing shareholders would object to or resent a call? A.—Oh no.

Q.—You had no reason to suppose that? A.—No, we didn't enter into the matter.

Q.—Had you yourself supposed up to this time that no further call would ever be required in respect of the subscribed stock? A.—Yes.

Q.—That had been your view? A.—Yes.

Q.—If you had that view it would seem to be likely that those who knew less about it would be very likely to have it too? A.—Oh, very likely. I think it was the view of the whole Board, all that were then connected with the matter, that 25 per cent. would be ample, all we needed.

Q.—Then the prospectus says: "The Directors reserve the right to reject or reduce any application, the application carrying with it the obligation to accept the reduced amount. If no allotment made the amount deposited to be refunded." The amount of call including the premium on one share amounting to \$100 is \$3,125? A.—Yes.

Q.—And that would be arrived at by adding the capital and premium together and dividing by four? A.—Yes.

Q.—Then you put extracts from the financial statement presented at the first general meeting. That I will take for the moment just to see the collocation of these items. Is the financial statement put before the first meeting? A.—Yes.

Q.—The first statement says, receipts, share account, capital, \$37,175.

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Interest and premiums on stock \$8,026.98.

Receipts Provident branch \$5,276.90.

Or a total of \$50,478.

That is put here, "Receipts including capital \$50,478.88."

The expenditures you have put at \$19,153.69.

And those amounts are, organization expenses, \$4,137.41.

North American Life transfer \$8,664.07. What is that? A.—That is the amount we paid to the North American.

Q.—Claims on policies \$500.31. Expenses \$1,663.64. Expenditures provident branch \$4,218.26. A.—Those are the items in the account.

Q.—What were those organization expenses? A.—Well, those are the costs I take it of obtaining subscriptions, and the letters patent.

Q.—Promotion expenses? A.—Promotion expenses; fees. Too low from my point of view.

Q.—Then your assets are put at \$50,011.13. How was that, if you had only received \$50,000 and expended \$19,000, how could your assets be \$50,000? A.—They speak for themselves.

Q.—How does that strike you. Your total receipts were \$50,000, your total expenditures \$19,000; how did you have assets on hand to the tune of \$50,000 still left? A.—Well they appear by the book, the statement.

Q.—"By life insurance branch." What does that mean? A.—I take it that is premium account.

Q.—What do you mean by premium account? A.—Premiums deferred or maturing on the Provident branch I take it. I am not clear on that.

Q.—You are not clear about that? A.—No.

Q.—Then the organization expenses appear there as an asset? A.—Yes.

Q.—At all events it appears there. Then you have office furniture and supplies; cash value of life policies; bills receivable; what are those, in connection with the stock? A.—Yes, probably that is it.

Q.—Cash reserve with the North American Life, \$7,000? A.—Yes.

Q.—Then certain bonds and cash in bank making a total of \$50,000. I shall have to criticize that later. At all events that is what you put here. Liabilities, excluding capital \$11,000, surplus \$38,592.86. Now with that in that form upon the prospectus you had received from all sources including capital \$50,000 odd; you had expended over \$19,000 of it. You had assets to the extent of \$50,000, and liabilities

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excluding capital, to the extent of \$11,000, and this prospectus states that you had a surplus on hand of \$38,592. Would that have any reference or connection whatever, would it bear any relation whatever to the expression, "net surplus accumulations" in the agreement between the North American Life and the National Agency? A.—Well, I would not like to venture an opinion on that. I think that would be rather an actuarial matter. I might be inclined to think that any surplus on hand came from net accumulations, but an insurance man might think me quite wrong there.

Q.—I won't press you if you really say that you do not feel able to express a view about that? A.—Yes, I would rather not.

Q.—Do you say you do not feel able to express a view? A.—Yes, I don't feel able to express a view on that as to the actual meaning of that expression, whether the net surplus accumulations referred to in the agreement have any connection whatever with the surplus which is the difference between your assets and liabilities? A.—Just let me say this, that expression was arrived at between Mr. McCabe, who was such a well known insurance expert, and Mr. Evans, and others under the first agreement, and the second agreement was merely an echo of the first. I as a lawyer would not like to interfere with the phraseology adopted by an insurance expert.

Q.—I quite appreciate all that, but with the experience which you have acquired in the past five years, you are not able to say whether in your view the surplus referred to in this prospectus has any connection whatever with the thing which is described as net surplus accumulations in the agreement? A.—No, I could not say. I have no view on the subject, never thought of it.

Q.—You have no view on the subject at all? A.—No.

Q.—Then I accept that and pass on. That was then the prospectus issued upon the meeting of the 22nd of August authorized by the resolution of the Executive to which I have referred. Now another matter took place at that meeting as to which I wish to ask a question. On the same page 4 there is this statement made: "Accident Insurance. The General Manager also reported having visited Ottawa and Montreal, where he interviewed the General Manager respectively of the Canadian Railway Accident Insurance Company and the Canadian Accident Insurance Company, for the purpose

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of arranging an agency so as to provide an accident and sickness insurance to work in conjunction with the Provident business in accordance with the resolution in that connection passed at the late general meeting of the shareholders of the company. Negotiations are still in progress." Is that what you had reference to a few moments ago when you speak of the desire that was then felt, the intention that was then entertained of working the two kinds of insurance together? A.—Yes, that is what I meant.

Q.—Did it occur to you that that might be a violation of the Insurance Act, which prohibits any company from doing two kinds of insurance? A.—No, but one man can be agent for the two different classes. That is treating the National Agency as an individual it would have a perfect right, and the letters patent contemplated that.

Q.—The letters patent contemplated that of course, but what you were doing according to what you told me—the matter speaks for itself, and I do not want to argue with you at all about it—but the essence of what you were doing was to carry on the business of life insurance? A.—Oh yes, that is what it would practically amount to.

Q.—Then if you made a similar arrangement with an accident company you would be carrying on an accident insurance? A.—Certainly. As an agent.

Q.—You would be carrying it on for the benefit of your shareholders? A.—Oh yes.

Q.—And as owner? A.—Not owner of the accident. That was not contemplated. There was an agreement you have seen made with the Canadian Accident Company, that was the only consummation of the matter.

Q.—Do you see any objection to an insurance company which is doing life insurance, acting as agent? I am putting it expressly, an insurance company. An insurance company doing life insurance and acting contemporaneously out of the funds of its shareholders as agent for an accident insurance company, would you think that in accordance with the law? A.—I should not like to stand here as a Judge and give an opinion as to what that is, but as a matter of business it would not seem to be improper that one company should act as agent for both classes of business.

Q.—That again, you will agree with me I am sure about this, is a clear

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question of statutory power? A.—Exactly so.

Q.—And that, as you have very properly reminded me, someone else must determine; neither you nor I. Then I want to ask you a question or two with regard to a minute of the Executive at page 12 on the 12th of February, 1902. The following certificate of the Auditor was read, namely, "I have examined into the business which has been done since the formation of the company and the prospectus of business for the next two months, taking the basis of the present business, I would think that the company will be safe in declaring a half-yearly dividend payable at the end of March, 1902, at the rate of 10 per cent. per annum. Signed George Clay, Auditor." Are you able to tell us under what circumstances the auditor gave that letter? A.—I had requested that the matter should be submitted to the auditor to see whether a dividend could reasonably be paid.

Q.—Why had you done that? A.—I was not sufficiently familiar with the accounts and I had not fixed in my mind that we had arrived at that point where we could properly.

Q.—How did the idea of dividend occur to you? A.—Well we wanted to pay a dividend if we could.

Q.—Why? A.—Our shareholders were looking for it, naturally and they thought the business, whenever any of them mentioned the matter, that was being done would warrant it.

Q.—Of course when I speak of shareholders I make a difference between the ordinary shareholder and the Director; the shareholders would have no knowledge about that at all? A.—They would have more knowledge about it than we think.

Q.—You would not expect a shareholder, say Mr. Tucker, or I think a Miss somebody, you would not expect an ordinary shareholder to know as much about the inner workings of the company and the profits it was making as the Directors in charge of it? That stands to reason? A.—Naturally so of course.

Q.—Then they were looking for a dividend, there is no doubt about that? A.—Exactly, and we wanted to accommodate them if we could.

Q.—That would be a good thing for the floating of the balance of your stock? A.—Oh no doubt.

Q.—And therefore you set about the inquiry whether or not the affairs of the company were such as to warrant a dividend? A.—Yes.

Q.—Then do you remember any discussions upon the subject between yourself and Mr. Evans or Dr. Millichamp at all? A.—Excepting that.

Q.—Leading up to these instructions to the auditor? A.—No. Excepting that it had always been before the minds I think of all of us that a dividend should be paid when we could, as soon as we could, and it came up, I couldn't say from whom, at the meeting that the time had arrived when a dividend might properly be paid, but as President of the Company it occurred to me that before any dividend, it being the first move of that kind, we should certainly submit it to the auditors. I am not familiar with the accounts, I had nothing to do with the matter of book-keeping and so on and I wished to be fortified at any rate in my action by the certificate of the man who should know how that might be.

Q.—Therefore you had this certificate from him. Now will you offer, before I do, any criticism upon the principle upon which Mr. Clay has made that statement? A.—I think I understand what you mean. I had not considered it really, but since you have read it, he says, "Examined the business which has been done since the formation of the company and the prospectus of the business for the next two months taking the basis of the present business I would think the company would be safe in declaring a half-yearly dividend payable at the end of March, 1902." This was in February. Evidently by that he contemplated that there would be sufficient receipts in hand by the company during the month of March, unless some unforeseen accident happened that would enable the company to pay a dividend at the end of that month. That was about 7 weeks ahead.

Q.—I asked you whether you would offer a criticism upon that principle, that method, before I did? A.—I suppose the criticism would be on the propriety of taking into account the prospective business?

Q.—Yes. A.—Perhaps that is the view that occurred to me when I had asked his certificate on the subject. It may be a matter of opinion.

Q.—What would your opinion be as to the propriety of that? A.—Well the character of the business would enter somewhat into that. I suppose under ordinary circumstances it would not be proper to anticipate receipts, but there are some businesses where

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you can be sure reasonably that the receipts coming in during a certain period, from which you get promises to pay, so to speak, at the end of that period.

Q.—Then you approbate and reprobate? A.—Put it as you like; I couldn't say.

Q.—You do not think it is right in principle to declare dividends out of anticipated profits do you? A.—I should not like to do so under ordinary circumstances.

Q.—What is the essential thing in the declaration and payment of dividends in this Province? A.—I take it that there is first of all a balance in hand, that there are profits and that the capital will not be cut into.

Q.—There must be no encroachment, that is a foundation principle, upon capital? A.—Yes.

Q.—Your capital must be unimpaired? A.—Must be intact.

Q.—And what you pay must be paid out of profits? A.—Yes, out of accretions of some sort.

Q.—Then I think, Mr. Symons, that upon that certificate a balance sheet was prepared and a dividend was in fact paid? A.—Yes.

Q.—And this is given to me as a copy of the balance sheet and I have examined it, so we will perhaps be able to discuss these items without interfering with the gentlemen who are at the books. February 12th, 1902. I am going to ask you about some of these assets. This is the Board of Directors' minute book, and it is under date February 12th, 1902? A.—Yes.

Q.—And it is headed, "Audited summary of assets and liabilities." Perhaps you would rather take this copy; Mr. Evans is not to be congratulated upon the clearness of his handwriting. We can perhaps read this copy better. The first item in the assets is "Organization expenses \$4,000." To what does that refer? A.—That refers back again to the original expenses of organization and promotion.

Q.—Will you tell me upon what theory—because you said that was a proper asset a while ago—you make organization expenses which have been paid out, an asset of the company which succeeds to the promotion? A.—Well, it is a part of the cost of the business and if you were selling out a business you must necessarily take into account I suppose the cost of acquiring the business, the organization would be proper there; whatever fees and expenses had been incurred in that connection must be added into the cost and treated as part of the assets.

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Q.—Then under all circumstances, what a thing has cost you is to be put into the statement of assets? A.—It has to be taken into consideration.

Q.—As an element of value? A.—Yes, it is not something you can put on the table and show but it is an element of value; I suppose that is the justification in all these statements.

Q.—That is the justification if there can be a justification? A.—Yes, I would sooner see it wiped out, personally, but accountants tell me that the item must not be lost sight of, that is the way they put it. It is an actual outlay and should be added to the cost.

Q.—I agree with you when you are computing what the cost is, but when making out a statement of assets it may be another thing. Of course you will agree with me, will you not, that in this particular case those organization expenses were an out-go which had taken place and which never was intended to be recouped? A.—There was no intention to recoup it.

Q.—Then there are some items which I pass over until I come to bills receivable. What would that be? A.—I take it that would be shareholders' notes.

Q.—For stock and premiums? A.—Yes.

Q.—Then bonds \$12,000? A.—Those would be those Port Hood's and Quebec Street Railway bonds.

Q.—\$5,000 and \$7,000 respectively? A.—Yes.

Q.—Then there is an item in assets of contingent premiums, which was explained partially at all events by Mr. Evans yesterday. I would like your statement with regard to that? A.—Well, that is an item that we always had a considerable amount of discussion on. As a layman I should wonder at such an item.

Q.—Look at it from the point of view of the layman who is in the witness box. What do you say about that? A.—Well, I think that layman would sooner defer to the man of experience in those matters. I would not like to say it was wrong. It might be another item that I would prefer to see wiped out if I could, because it is in future.

Q.—That is the essence of it, it is contingent and in the future? A.—Yes.

Q.—It is not an asset in hand? A.—Yes. It might be collected and it might not. If it is collected then it is made good.

Q.—It is not a bird in the hand, but 3 or 4 birds in the bush? A.—Exactly.

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Q.—And whether you may shoot them or not, depends? A.—Yes.

Q.—You would not if you were preparing a balance sheet of your own, without assistance from anyone else, put any such item in? A.—Then they might complain of my balance sheet.

Q.—Supposing no one had to criticize it but yourself, if you were doing it to arrive at your own position? A.

—Oh, if I was not an insurance man and I was arranging my balance sheet, such an item might escape my notice.

Q.—If you were honestly desiring to ascertain your own financial position would you put any such item as that, based upon any such contingency as that, among your assets? A.—I might from this point of view; if I was endeavouring to ascertain the value of my own personal business I would have to take into account what that good will was, which might also be considered as something that is contingent and not a tangible asset as it were, but it is an accretion.

Q.—Now you have got away from me altogether, and you must come back please and stay with me just for a moment. I am asking you whether you would if you were sitting down to ascertain what your financial position is to-day, what your assets and liabilities are to-day, would you add the income you hoped to make next year? A.—Do you mean as an insurance man?

Q.—No, as Mr. Harry Symons, trying to ascertain his own financial position to-day? A.—As far as I know there is nothing in sight.

Q.—What would you do? A.—Oh I could not take into account in my own private affairs what I expected to make during the next year.

Q.—That is the answer I quite expected from you. You understand that to be premium in respect of business not yet even written? A.—No, I understand that to be contingent premiums on business already written.

Q.—There are besides this deferred and outstanding premiums of \$8,323?

A.—That is just where the difficulty comes in. I cannot claim that I know the difference between those two items. Of course if that contingent premium means on business yet to be written, then that might be looked upon as an approximation, assuming you keep all your staff together and keep down to work.

Q.—At all events if that means premiums on business not yet written it would fall within the—I was going to

say the vice, but I do not want to use that language—it would fall within the erroneous principle which you have declared to be erroneous, that you must not put next year's income into this year's statement of assets? A.—That is in my private accounts, but I don't know how that might govern in insurance.

Q.—I do not suppose in making up a statement of the present assets and liabilities it can make any difference whether it is an individual or an insurance company. The next matter I ask you about is, "Cash with the North American Life." That is the cash for the reserve? A.—Yes, well, that we treated as a deposit.

Q.—Then, mortgages held by the company I pass over. Deferred and outstanding premiums less 15 per cent. for collection? A.—That is evidently on current business.

Q.—That is premiums which have not yet been received but which you are entitled to receive if the insured carries out his contract? A.—Yes.

Q.—Then that gives you the total assets according to that way of looking at it of \$67,957.06 on the 12th February, 1902. Then let us pass to the liabilities. You had \$50,825 of capital paid up? A.—Apparently.

Q.—That was par, not premium of course? A.—Yes, that is par.

Q.—That was the proportion of the moneys you had received which was applicable to the par value of the stock as distinguished from premium? A.—Yes.

Q.—That then was apparently a proper liability. Then contract liabilities, what do you take that to be? A.—I couldn't say at the moment.

Q.—Can you by assistance from Mr. Carrie find that out? A.—No, Mr. Carrie was not in the company at that time. Mr. Evans would know.

Q.—Then, Mr. Evans, what is contract liabilities \$10,987?

MR. EVANS: I think that was the reserve Mr. Shepley, the amount calculated to be the reserve on the business at that time for the North American.

Q.—Would that include the reserve in respect of which the North American was holding the \$8,078.13?

MR. EVANS: Yes, the difference between those two would probably account for the premiums outstanding.

Q.—Then I think I understand that and that seems to be satisfactory. Then I have taken the liberty of re-

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writing that, Mr. Symons, with certain items excluded. I have excluded the organization expenses and the contingent premiums, and I have excluded for the present at all events deferred premiums. That leaves a total of assets of \$35,677.03. You see that? A.—Yes, in your statement.

Q.—I have not excluded anything that you have among your liabilities as they are now explained. That makes a total liability just as it was in the company's statement, of, \$61,-812. You see that? A.—Yes.

Q.—Or a deficit of \$26,134.92? A.—There would be an apparent deficit with those items you have detailed left out.

Q.—And if we only exclude the organization expenses and the contingent premiums, giving the company the benefit of deferred premiums \$8,323.98, there is still a deficiency of \$17,810.94? A.—That is your figures, yes, that is right.

Q.—Now am I right in saying that upon that statement audited by Mr. Clay, the Board did declare and pay a dividend of 10 per cent.? A.—Yes, they did. That is at the rate of 10 per cent.

Q.—Now with the manifest and altogether laudable anxiety that you felt with respect to the propriety of paying this dividend, how did you come to assent to its payment under circumstances which appear to have been so doubtful? I think you are entitled to make an explanation about that fully if you please? A.—Well, I did not think myself competent to dispute the auditor or for instance with Mr. Evans, the propriety of putting in those items of contingent premiums and so on. I thought rather that I should be governed by them, that I should have been in error possibly if I had not acted upon their views as to those items. That may or may not have been right but it was done in good faith.

Q.—I am not questioning that at all at present. I am trying more to get at the facts. Do you say that your own view was overborne by the others? A.—Yes, any views I had on the subject were not in accord, I may say that, but in deference to what I considered to be the expert opinion on such subjects I naturally gave way.

Q.—The question was an important one? A.—Yes, it was important and that is one reason that led up to that certificate. I was not satisfied.

Q.—On the one hand your shareholders would have been disappointed—that is putting it mildly—if they had not got a dividend; they were expecting and pressing for a dividend. On the other hand there was the great danger of dipping into capital? A.—If those items had to be disallowed, then you would dip into capital. But in addition to that, certificate, when the dividend was declared I required that the Directors should assume personal responsibility by giving their note for the amount of that dividend and let that matter be determined later on and if it was found that the dividend had been improperly declared then the Directors would have had to make it good.

Q.—What became of the notes afterwards as a matter of fact? A.—They were ordered to be delivered up to be cancelled.

Q.—By the shareholders? A.—The shareholders were satisfied.

Q.—The shareholders, at a general meeting? A.—Yes.

Q.—Approved of everything that had been done? A.—Yes. That was ordered to be delivered up by a specific resolution.

Q.—The shareholders had got their dividends, and they took the view that the auditor had taken, that they had got dividends that were not out of capital? A.—Exactly.

Q.—If they were out of capital, that did not prevent it from being taken out of capital; it might prevent the shareholders from objecting, but it would not prevent the depletion of capital? A.—If those items are wrong of course, but I did everything that was possible at that time to protect everybody.

Q.—Then perhaps the shareholders who were there and understood and assented would be bound by it; the shareholders who were not there and did not know anything about it would not be bound by it of course? A.—That is a matter of law.

Q.—It was not very long after that before you had another statement, which was not apparently laid before the shareholders, but which found its way into the minutes of the Directors at page 12. Whose handwriting is that? A.—That is Mr. Clay's.

Q.—Do you know what was the object of preparing that? A.—No, it probably arises in connection with the formation of an independent life company.

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Q.—What is the minute about the formation of an independent life company? This is the minute of the Board meeting? A.—Yes.

Q.—It seems to have been presented and it is authenticated by your signature upon the side of it? A.—Yes, that was presented.

Q.—This is headed "estimated statement of liabilities and assets March 21st, 1902." The first asset is "By contingent premiums, ten months." That would be the same item that we were speaking about before? A.—Yes, the same character of item.

Q.—"Deferred premiums less 15 per cent." That would be of the same character also. Organization expenses \$3,900. The item indicates that 5 per cent. has been deducted from the \$4,100 odd which were the organization expenses? A.—Yes, we wrote off 5 per cent.

Q.—That would be on the theory of gradually making that disappear? A.—Yes, I should say so.

Q.—That would seem reasonable to me? A.—Oh yes, I should say so.

Q.—Although it turned out that afterwards that was departed from and it went climbing up. Then furniture and supplies, policy loans, mortgages, bonds, bills receivable; will that be all the same? A.—The same thing.

Q.—That is payments by shareholders? A.—Yes.

Q.—Cash with the North American is the same item? A.—Yes.

Q.—Cash in banks, and cash in hand. The total assets according to this statement are \$93,436.14. Then the liabilities are, paid up capital \$76,375. Contract, I suppose that means the same as the other? A.—Yes.

Q.—Reserve. \$12,000. A.—Probably anticipating what we would have to put up at the end of the year, the difference between 8 and 12.

Q.—The total being \$88,375, leaving an apparent surplus of \$5,061.14. That apparent surplus was a little over \$1,000 less than the surplus shown in the statement of February 12th? A.—Yes, just about \$1,000. I take it that that arose by reason of the increase in the item of contract liabilities.

Q.—Now I have done the same thing with this as with the other account. I have re-written it excluding the organization expenses, the contingent premiums and the uncollected and deferred premiums, and that method of

dealing with the matter leaves a deficiency of \$27,548.86? A.—Yes, with those items left out.

Q.—With the uncollected and deferred premiums, if you allow those as an asset it still leaves a deficiency of about \$17,000? A.—That is right.

Q.—And that deficiency is about the same approximately as the deficiency shown by the same method on the account drawn on the 12th of February? A.—Yes, there is no substantial difference.

Q.—Then I go to the next time at which I find the assets and liabilities of your company to have passed under review in your Board. Turn to page 20 of that minute book. You see there an estimate of assets and liabilities on the 1st of June, 1902? A.—The same character of items.

Q.—The first item of assets shows a large increase in the contingent premium fund, \$25,365.72. Then notes bearing interest, I suppose those are the notes given? A.—The same thing.

Q.—I suppose those are two assets. Then the deferred and outstanding premiums have also mounted up, \$12,522.58. Then the organization expenses have been written down to \$3,600? A.—Yes.

Q.—And the office furniture seems to be only an estimate of course? A.—That would be increasing. The staff was increasing. It was a very considerable item.

Q.—Then there were advances to agents, secured. What does that mean? What it says I suppose? A.—Just exactly.

Q.—And secured may mean? A.—By their notes or contracts.

Q.—Ledger balances \$552.23, what would that mean? A.—I couldn't give you that unless there were some current accounts not closed.

Q.—Interest accrued \$300. That would be upon what? A.—A Bank balance, or something like that.

Q.—Loans on policies; bonds. They have gone up to \$22,000. Do you know what bonds were added? It was \$12,000 before? A.—Hadn't we purchased the Sault Ste. Marie bonds?

Q.—Perhaps so? A.—I think very likely.

Q.—The Sault bonds were \$10,000 were they? A.—Likely, yes.

Q.—Then very likely those had been purchased in the meantime. Then cash in banks, and the old reserve in the North American Life. Then

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you show a capital stock paid up at that date of \$84,650? A.—Yes.

Q.—Contract liabilities, which we understand now to be reserves, including the amount necessary to pay bonds held by the North American Life? A.—Yes.

Q.—\$12,000. Accounts outstanding \$300. That is little debts the company owes? A.—Small things, yes.

Q.—That shows a surplus of \$5,580.-83. That also I have re-written in the same fashion. Your assets, treating them in the same way, amount to \$61,042.53. Your liabilities \$96,950. Leaving a deficiency of \$35,907.47. From which if you take away the deferred premiums, leaving them as assets, you have a deficiency of \$27,385? A.—\$23,385.

Q.—You are right. A.—That is assuming that we should disallow those disputed items.

Q.—Oh quite, but giving you the benefit of the deferred premiums? A.—Yes.

Q.—Then turn to page 28. You seem on the 30th of August to have had another statement presented of assets and liabilities which is certified by the auditor? A.—Yes.

Q.—I call your attention to this, and ask for an explanation if you can give it to me. Apparently your auditor's or bookkeeper's method, the method of any person who was responsible for this statement, was altered, when the statement of August was made? A.—It would seem so.

Q.—It seems to be based on an entirely different principle? A.—Yes. I suppose that might be said to have been done without any question of impropriety regarding former accounts. It is a matter of system.

Q.—Yes, I am going to point out a very good and valid reason for making this. At that time on the 30th of August, 1902, the Union Life had been formed? A.—Yes, August, 1902.

Q.—And your company had subscribed for practically a million of stock in that company? A.—Yes.

Q.—And had paid \$100,000? A.—Yes.

Q.—And a premium? A.—Yes.

Q.—And the business which you had been carrying on, the Provident business had been transferred to the Union Life? A.—Yes.

Q.—So that what your company then was dealing with as property was its ownership of the Union Life? A.—Yes.

Q.—Properly therefore the first asset that you have in the account is \$147,375, being the stock that you then held in the Union Life? A.—Yes.

Q.—That you put at what it cost you? A.—I think that is the cost.

Q.—Before leaving that item I want you to explain to me or see whether we cannot together get to an explanation of how that was paid out, in what form and in what sums, and so on. This is the journal of the Union Life Company, and you see there \$16,670.83 in stock premiums? A.—Yes.

Q.—The significance of that is that your company, the National Agency Company, was putting up by way of premiums in respect of this particular transaction, \$16,670.83? A.—Yes, that is premium on stock.

Q.—Then as to capital, your company was putting up \$31,591.67? A.—Yes.

Q.—And the seven directors were putting up \$250 each? A.—Yes.

Q.—Making a total fund of \$50,012.50? A.—Yes.

Q.—That was not paid in cash was it? A.—It was either cash or we handed over the municipal debentures I think.

Q.—No, the municipal debentures are another transaction which I will come to. These are the items which total up \$12,000 and so on. So apparently what the Union got as equivalent for \$50,000, which was to be paid in cash was accounted for on items of property set out here in detail to the extent of the same sum \$50,012.50? A.—Yes.

Q.—In the first place it got the asset which is called North American Life reserve \$8,078.03. Then it got \$1,409.30. Do you know what that was? A.—No, I don't know. I have no familiarity with the accounts.

Q.—That seems to have been afterwards paid so that is a proper enough asset to have there. Then interest accrued, \$176.70. Furniture and fixtures \$3,200. Supplies and printing \$1,366.95. Cash value of life policies \$207.90. Premium on a particular policy No. 5,599, \$37.00. Policy loan \$51.00. Organization expenses \$607.28. A small item of supplies and printing, \$45.69; travelling expenses \$100; commission \$34,732.05. Total \$50,012.50, the equivalent of these sums we have been speaking about. In other words the National Life handed over in discharge pro tanto of its obligations in respect to this stock sub-

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scription, its assets? A.—I would not like to say that or not. I don't think it is a matter that I have had anything to do with. I may say this. that there is another matter to be taken into consideration there; it is within my recollection that the Superintendent of Insurance at the time of the application for the license had required that that \$62,500 would be shown in cash and for that reason should pass through our bank books, but whether that \$50,000 formed any part of that I don't know.

MR. CARRIE: It does not.

MR. SYMONS: It does not? Then I am quite a stranger to the books.

Q.—But that seems to be the significance of the entries here? A.—Yes.

Q.—Then, furniture and fixtures, that means that the National Agency Company? A.—Turned over all their office furniture.

Q.—And the same with the supplies and printing? A.—Yes, exactly.

Q.—Cash value of life policies? A.—That is a policy we had taken over from a shareholder.

Q.—Then premiums? A.—That was to keep that alive. I think it was the same policy.

Q.—That is something that you passed over the right to collect? A.—Yes.

Q.—Then organization expenses? A.—I think that is the cost of obtaining the Union Life charter. The only fault I have to find with that is that it is too cheap. However, we put it in practically at actual cost.

Q.—That you passed over or charged up against what you were supposed to be paid. Then there is another item of supplies and printing, probably something that was omitted from the first, a small item. Then travelling expenses, what was that, in connection with the charter too? A.—I don't know what that would be.

Q.—Then what is this item of commissions? A.—That is a matter I have no information upon.

MR. CARRIE: That is the amount that the Union Life paid the National Agency for the cost of their business. In other words the salaries, special salaries paid out of the agents for obtaining the books that were already on the company's books for the preceding six months, that was reckoned or allowed to be the special salary paid for the cost of the books they were taking over, the cost of the business.

Q.—That is called commission; why?

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MR. CARRIE: Because it was commission paid to the National Agency for the cost of their business.

MR. SYMONS: That is the price.

MR. CARRIE: Yes, the price the National Agency paid for the business. Set forth in the agreement.

Q.—Then let us see the agreement. The first paragraph of the agreement says that the fixed and ascertained value of the Provident business heretofore mentioned, together with the policies now in force and the full benefit and advantage of the same, together with agencies, books, contracts, etc., relating thereto and the leases of the premises now occupied by the Agency Company in Toronto and elsewhere, shall be and is hereby agreed to be the sum of \$34,732.05, which sum the Union Life agrees to pay to the Agency Company in the manner herein provided. Now who made this agreement? A.—Who drew it?

Q.—What persons made it? A.—Mr. Evans, acting on behalf of the Union Life, and I, acting on behalf of the National Agency.

Q.—You both Directors of both companies? A.—Exactly.

Q.—Then you acted for the National Agency Company and Mr. Evans for the Union Life? A.—Yes.

Q.—And you sat down and made this bargain? A.—Yes.

Q.—This \$34,732.05, how did you arrive at that? A.—That is a matter I cannot recollect.

MR. CARRIE: That was 15 times the monthly premiums in force at that time.

MR. SYMONS: I remember there was a discussion as to the number of times. We had always been under the impression that the seven times paid to the North American was a low amount, taking into consideration the persistency of that business at that time. We had been under the impression for sometime, under the agreement we made with the North American originally, that that price of seven times was a very low price. It suited them to turn it over at that rate. It only meant seven months' premiums, and Mr. Evans had quoted to me the prices that had been paid by other companies for taking over similar business, such as the Johns Hopkins had paid for some other company, or the Metropolitan had paid, those amounts being practically common property and we thought the fair adjustment would

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be in the neighbourhood of 15 times. It was brought up as high at one time as 20 or 25 times.

Q.—What figures were being suggested by Mr. Evans as transactions that he knew? A.—There were suggestions of I think as much as 100 to 200 times the weekly indemnity business, that is the straight industrial. Divide those by four to get the monthly. Those were quoted as instances of prices which companies doing business were willing to pay for the turning over of business of that kind. It came down ultimately to what might be termed a fair and reasonable amount.

Q.—Mr. Evans was the buyer and you the seller? A.—Yes.

Q.—Mr. Evans was bringing forward the instances where much larger sums had been paid? A.—Yes.

Q.—One would have thought it would be you who would be taking that position? A.—Well he was quoting all the figures, we were discussing the matter.

Q.—With respect to which you were practically in his hands? A.—Oh yes, had to be.

Q.—And in the result you arrived at a ratio which was twice as great as the ratio upon which you had bought? A.—Yes.

Q.—Why was it necessary, inasmuch as your company held all the stock in the Union Life, to go through this form at all of fixing a value upon this? A.—Well it could not be determined as to what would be the ultimate outcome of the Union Life. Stock account for instance. It might be that it might have suited the National Agency to put a portion of that on the market. That would have introduced a new element, and it was necessary therefore that we should arrive at correct adjustments.

Q.—And it was also necessary, was it not, that you should be able to still continue to pay dividends upon the National stock? A.—Oh that I don't think entered into the matter.

Q.—Do you say so? A.—Oh, the whole thing was done straight you know.

Q.—I am not suggesting that even that would have been crooked, but do you say the prime necessity for paying dividends to the National Agency shareholders had not anything to do with it? A.—Oh all those elements entered in, yes.

(Adjourned to 2 p.m.)

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AFTERNOON SESSION.

—Resumed at 2 p.m. May 10th, 1906.

—Examination of Mr. Symons continued.

MR. SHEPLEY: Q.—This is the statement we were considering, and I had been asking you about this item that appears in commission in the Union Life journal at page 3, amounting to \$34,732.05, and you had explained the nature of that item to me, that of course was not an asset in the hands of the Union Life? A.—It was an asset in the hands of the National Agency, which would transfer it to the Union Life, that is if you place a valuation on any asset at all it attached to that asset.

Q.—It was a sum which when it appeared in the books of the Union Life, if it appeared there as an asset, was not an asset in any proper sense of the term? A.—Yes, it is the value of the business which it took over.

Q.—In so far did the directors of the Union Life disagree with that statement that you must be aware that when the Union Life came to prepare a statement of assets and liabilities they dropped off that thirty-four thousand? A.—They treated it as a payment that had been made.

Q.—They did not treat it as an asset? A.—No, it would not be treated as an asset by the Union Life, that would be another matter; I see what you mean.

Q.—Although you were handing it over as an asset according to the entry in their journal and according to the component parts of this \$147,000 we were discussing— A.—It was treated as part payment of that \$147,000.

Q.—Then I come back to the statement at page 28, the bonds held by the company, \$12,000; what bonds were those? A.—Port Hood and Quebec Railway bonds I fancy.

Q.—Thought the other bonds had gone into— A.—Into the Union.

Q.—Next bills receivable held by the company \$21,458.76? A.—Notes held by the company, yes.

Q.—That I take to be, correct me if I am wrong, like other bills receivable in previous statements, notes given by shareholders in the National Agency on account of their stock? A.—Yes.

Q.—Then the company's share of premiums collectable but not due, de-

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ferred, what does that mean? A.—The company's share of premiums—I will say it subject to correction,—share of premiums of insurance, I take it, that were not yet due.

Q.—Did those belong to the National Agency? A.—Yes, it was due them by the Union Life, it only changed the principle—that is to say business in the hands of the Union Life, the National Agency I take it would be entitled to that proportion of share of the premiums on the business taken over.

Q.—Why do you say that? A.—That is the only theory I can give it to you on, that is to say at that time the Provident Branch business of the North American had been transferred to the Union Life, naturally there would be premiums accruing upon that.

Q.—And the Union Life had paid \$34,000 for that among other considerations, how could that possibly belong to your company any longer? A.—That I could not tell you, I would not like to say on what basis that proceeded.

Q.—Can you tell us, Mr. Clay.

MR. CLAY: I cannot just tell now, if I had the papers I could. This was an estimated statement.

MR. SHEPLEY: Q.—The property which is put down here as an asset had been handed over at that time entirely to the Union, and it belonged to them, and as far as your company was concerned was represented by the stock you held in the Union Life? A.—I take it that may be so subject to investigation, I would not like to say that was absolutely the case.

Q.—Then uncalled stock and premiums, \$253,512.50—what do you understand that to be? A.—That is uncalled subscribed capital stock and the premiums thereon subject to call.

Q.—In the National Agency? A.—Yes. Then we charge ourselves with that afterwards as capital stock, \$320,000, it is included in that, it is a set-off of items.

Q.—What is the difference between the two, because I make a good deal more difference than that upon a proper statement? A.—That would be \$67,287.50. It is the premiums on the stock.

Q.—Cash in bank and on hand \$9,149.24; that makes a total of assets according to the statement of \$454,847.87. Then the liabilities. First is the capital stock subscribed \$320,800. If that is reduced to the

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amount actually paid up upon the capital stock subscribed then you get rid of everything but the premiums on the other side of assets? A.—I take it that would be so, one would square the other.

Q.—Debentures \$35,000, what was that? A.—Those are the debentures held by the directors to secure them for advances. I take it that is the item.

Q.—Debentures of the company held by the directors of the company? A.—Who raised money at the bank.

Q.—To the extent of \$35,000? A.—Yes.

Q.—Amount due Union Life \$32,487.50? A.—That I take was the balance due the Union Life on the striking of the accounts between the two companies.

Q.—That consists of two items, \$21,658.33 and \$10,829.17? A.—Yes.

Q.—Do you know what those items are, take the journal entry page 4, perhaps you can make it out from that: "Amount in transfer of Provident Branch business charged to various accounts to be credited to Capital account \$31,591.67;" Then we come to the next item, which is this: "Amount of bills receivable to be credited to capital account, the amount having been credited to the shareholder from bills receivable book, National Agency Company, \$21,658.33—what is that? A.—I could not say.

MR. CARRIE: I think that is the balance of a note given on that date by the National Agency Company to the Union Life, being the balance of the amount of a settlement of the stock and premiums; \$21,658.33 was applied to capital account, \$10,829.17 was applied to premium account, being so applied to adjust previous transactions that had taken place, to balance them.

Q.—If that is the nature of the item what place has it in the liabilities of the National Agency Company? A.—To the Union Life.

Q.—I thought you put it the other way? A.—No.

Q.—That was the amount in adjustment? A.—Yes.

Q.—What is this, contingent surplus?

MR. CARRIE: That is outstanding premiums on the already subscribed for shares in the capital stock of the company.

MR. SHEPLEY: Profit and loss, that is the balance. Then one other

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question about that: if that is taken out of the liabilities and taken out of this also it will of course not disturb the balance; does it not in fact enter into that amount at the top, \$147,375?

Mr. Carrie answers the questions until a change is indicated. A.—Quite so, if that was the same date as the statement.

Q.—This is a copy of that statement? A.—Yes. This was paid the following month.

Q.—If we take that payment which was made as it appears by the journal by handing over to the Union Life the National Agency Company's property, if we take and re-write the statement having regard to the observations we have made upon it, see what you have to say to this statement—this is the re-writing of the statement of 30th August, stock and premium, Union Life, cash \$67,500, that seems to have been all the cash that was actually paid? A.—I may say that the adjustment although made through the journal might have been made through the cash book in another way.

Q.—That is not what I am getting at at present; that was in fact all the cash that had been paid by the National Agency to the Union Life? A.—Only according to what reference you make to the cash as going through the cash book.

Q.—Money is what I mean? A.—Money.

Q.—That is all the money? A.—Supposing the Union Life had purchased by cheque from the National Agency Company these assets that have been exhibited in the journal they would have then had the money in the bank.

Q.—I understand all that; that \$67,500 is all the actual money that passed from the National Agency to the Union Life; then I have called out of these assets that appeared on page 3 of the journal such assets as these: the North American Life \$8,078.63; interest accrued \$176.70; National Agency \$1,409.30; furniture \$3,200; supplies \$1,412.62; policies and policy loans \$295.90; making a total of \$14,573.17. That excludes that \$34,732.05, and it excludes organization expenses and travelling expenses; you understand that? A.—I understand you have got certain items and made up a new statement according to your own view.

Q.—Do not say it is my view, but upon a different view from the one up-

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on which the other statement was prepared? A.—Just so.

Q.—The National Agency still had the \$12,000 of bonds, it had these notes of its shareholders on account of stock, and it had cash in bank and on hand \$9,148.24; that would make total assets \$124,680.17, and putting the liabilities of the capital paid in, \$115,425.50, and debentures \$35,000, it would leave a deficiency of \$25,747.33. There is a discrepancy there between the two accounts which I should like you to explain. The difference here was \$67,287.50 between the item of uncalled stock and premiums and the capital stock subscribed. Take the figures \$67,500, add \$14,573.17? A.—\$82,073.17.

Q.—Then subtract those sums from \$320,800? A.—\$248,727.

Q.—I think I have that wrong and we will leave that.

The following questions are answered by Mr. Symons until a change is indicated.

Q.—Now, if you will turn to page 33, Mr. Symons, on the 31st December, 1902, you had a statement presented to the annual meeting of shareholders? A.—That is up to the end of that year.

Q.—That statement in the first place seems to embrace \$203,500 of stocks and bonds as assets? A.—Yes.

Q.—Deferred premiums \$14,884.45; what was that? A.—That seems to be the amount to which the National Agency would be entitled on taking accounts with the Union Life on the business.

Q.—Why is it called deferred premiums, if it were deferred premiums it would not be an asset of this company at all except indirectly through its shareholders in the Union? A.—Yes, it would be under the Agency agreement between the companies which provided the National Agency should receive all the premiums and collect all the premiums and be entitled to retain a certain portion, and those deferred premiums I take were part of the amount which the National Agency were entitled to retain.

Q.—That is in the future? A.—Yes.

Q.—Organization expenses, what has run those up so, \$7,637.41? A.—I would like to refer to the journal on that. I suppose there was some extraordinary expenses that year, that was when the Union Life was formed.

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Mr. Carrie gives the following answers until a change is indicated.

A.—That includes those organization expenses from folio 42 of \$6,873.67, together with another item \$763.74; that may be taken from another account.

Q.—All you tell us at present is that you see the original amount of organization expenses was \$4,137.41? A.—Yes.

Q.—What is this \$3,500? A.—That is qualification for the directors of the Union Life Insurance Company.

Q.—Then that is the money that was paid on account of the qualification of the directors? A.—Yes.

MR. SYMONS: It was treated as part of the organization expenses, I remember that.

MR. CLAY: Ten per cent. was written off.

MR. SHEPLEY: No doubt with a view of eventually getting rid of it altogether. That is the way it happened, your organization expenses in the National Agency have been swollen by the amount paid to qualify the directors? A.—Yes.

Q.—And ten per cent. has been written off that. Uncalled stock and premium, that is the same nature as the item we discussed this morning.

The following answers are given by Mr. Symons until a change is indicated. A.—Yes.

Q.—Cash plus bills receivable, what is that? A.—Some notes of shareholders I expect.

Q.—As a matter of fact you do not seem to have any particular sum of money in the bank at that time, it was mostly bills receivable. The liabilities; you have increased your capital stock to \$420,100? A.—Yes.

Q.—The debentures are only \$20,000? A.—They have been reduced to that.

Q.—Due Union Life on stock \$30,000, what is that? A.—That is on subscription stock.

Q.—That was a call? A.—Yes, that must have been a call on premium account.

MR. CARRIE: No, that is stock account.

MR. SHEPLEY: Q.—What is this bills receivable?

MR. CARRIE: The Union Life advanced the National Agency Company 80 per cent. on the Port Hood Coal bonds, amounting to \$5,600. That was retired the same year, I believe, or the following year.

Q.—That is 80 per cent. of the \$7000 of Port Hood bonds?

MR. SYMONS: Yes.

MR. SHEPLEY: Q.—And the National Agency puts that in as bills payable because they had to pay it back?

MR. SYMONS: Yes.

Q.—Life Agency, balance.

The following answers are given by Mr. Carrie until a change is indicated.

A.—The National Agency Company have owed the Union Life \$3,901.65 on account of expenditure in connection with this agreement. They in two or three months afterwards retired that note, it was paid the following year.

Q.—Let us in the same way revise that statement, or redraw it upon a different principle. Just follow me and see if this is not correct. You had paid \$67,500 in money prior to October? A.—For which cheques had passed.

Q.—You had paid \$20,000 between that and the 31st December in the same way, money? A.—Yes.

Q.—You had given a note for \$32,487.50 which you had paid? A.—We had retired that.

Q.—So that altogether there was \$119,987.50 of money. Then you had transferred according to the substituted account for the last, in good assets \$14,573.17; excluding some assets which did pass but which are excluded by this statement, that would make \$134,576 of money invested. From that should be subtracted the qualification of the directors, that is right to subtract that? A.—Yes.

Q.—That would make a total of \$131,060.67 net. The Port Hood stock is included in your \$203,500.

MR. SYMONS: That would be, I take it.

Q.—We have to add that \$7,000; cash in bank \$1,810.53, bills receivable \$39,107.41, and you have total assets of \$178,978. Then taking the capital paid in instead of the whole capital stock subscribed, the capital paid in to the National Agency was \$191,600.

MR. CARRIE: That is correct.

Q.—The debentures outstanding, liabilities, were \$20,000, bills payable payable \$5,600 and the life agency \$3,901.65; that excludes of course contingent account altogether? A.—(Mr. Carrie) It takes all the other liabilities.

Q.—That leaves a deficiency at that date, 31st December, of \$42,123.04, taking it in that way? A.—(Mr. Symons) Upon that hypothesis.

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Q.—Upon that method of treating the assets and liabilities? A.—(Mr. Symons) Yes.

Q.—I do not find any other statement of assets and liabilities until 27th October, 1903, and that is in the directors' minute book? A.—(Mr. Symons) 22nd October.

Q.—That ought to be the 27th October? A.—(Mr. Carrie) Yes.

Q.—That would be your operations from 31st December, 1902, at least it would record the result at the end of the additional period between 31st December, 1902, and 27th October, 1903. Stocks and bonds, cost value, treating them as we have treated the others would include the stock and premiums paid by your company into the Union on account of stock and premiums? A.—Yes.

Q.—Amounting to \$139,987.50. It would include the good assets transferred \$14,573.17; it would include advances \$383, cash \$9,603.15; bills receivable \$24,875.22. It would exclude a portion of what you have got there as stocks and bonds. You had no stocks and bonds then except the stocks included in that as asset, except the stock in the Union Life? A.—The Port Hood.

Q.—No, Port Hood had been paid off? A.—(Mr. Symons) It was held by the National and they retired the loan on it.

Q.—At all events it finds no place in the account, does it, unless it is there? A.—(Mr. Carrie) The items are grouped.

Q.—It also excludes the organization expenses, deferred and outstanding commissions, uncalled stock and premiums altogether? A.—(Mr. Carrie) Yes.

Q.—The liabilities treated in the same way would be capital paid in \$220,372.65? A.—(Mr. Carrie) Treated in the same way.

Q.—Debentures have gone up to \$48,600; what was that, Mr. Symons?

The following answers are given by Mr. Symons until a change is indicated? A.—I would like to refer to the ledger on that before I venture to answer. I expect it was for additional advances by the directors. \$50,000 had been issued to the directors to secure them against their advances for the amount, and that \$48,600 might be a parcel of that. I know there are not any other debentures.

Q.—The bills payable would be included in the liabilities, \$5,600, that would leave a deficiency on the 27th

October, 1903, of \$85,150.61 according to that method of arranging the assets and liabilities. Then on the 31st December of that year another account by which you reserve for dividend, which really means you have made a profit, or adding a surplus of \$17,632.29. Do you find that? A.—I do not just see that.

Q.—I will ask you to assume this is properly copied from the statement in the minute book. That speaking generally was built upon the same method as the preceding ones we have been looking at since the incorporation of the Union Life? A.—Yes, I think so, excepting that item of contingent premiums, that was changed out.

Q.—It had not been changed yet because it appears in this, the time had not come when you changed it? A.—I thought it had been changed when the transfer to the Union took place.

Q.—This is built upon the same lines as all the other statements that have been made that we have been looking at since you incorporated the Union Life? A.—Yes.

Q.—That shows as I say a surplus of \$17,632.29, treated in the same way there, on the different standpoint, as the others have been treated it shows a deficiency of \$49,939.93—if Mr. Carrie would like to look at that he will see that has been treated in the same way, the same items excluded? A.—(Mr. Carrie) I will take your figures for it; I presume he has done it in the same way.

MR. SYMONS: I suppose there are several methods can be adopted for getting out annual statements?

MR. SHEPLEY: Q.—Coming to the year following, you submitted this statement to your shareholders on the 31st December, 1904; that shows a surplus of \$33,002.64; that statement is built upon the same plan as the preceding statement since the incorporation of the Union Life? A.—(Mr. Carrie) Yes.

The following answers are given by Mr. Symons until a change is indicated.

Q.—When you incorporated the Union Life had you an expectation then that as the result of your carrying on the business of the Union Life you would have to pay in large sums of money out of the moneys of the National Agency Company year after year for three or four years at least? A.—Yes.

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Q.—Was that in view? A.—Yes.

Q.—What you have had to do, or what you have done since with the money of the shareholders of the National Agency Company was something you had in anticipation at the time? A.—Yes.

Q.—Have you been at all alarmed or disturbed by the amounts you have found it necessary to put in to maintain the appearance of unimpaired capital in the Union Life—has it been more or less or about as much as you expected it would be? A.—You mean the payments in on premium account?

Q.—Yes? A.—I think I may frankly say that they exceeded my expectations and I think the expectations of all the Board. How that arose is another matter.

Q.—What I wanted to get at was the mental attitude of yourself and the other members of the Board so far as you can state it with reference to the future of the Union Life when you embarked upon it? A.—Yes, it is more than we expected with the volume of business that was in view at the time of the original organization of the Union Life. Of course it crept up by leaps and bounds, and has been very expensive to maintain. That was hardly expected, but still you asked the question of what was thought at the time of the organization, and I say frankly we did not expect to have to find so much money.

Q.—I suppose it would be difficult to say to what extent your expectations in that respect were exceeded? A.—It would be difficult to arrive at a percentage. I could just say they were quite considerably more. But how much they might be it is difficult for any one to say. If our business had been simply three or four million dollars a year the expenses would be so much less.

Q.—And of course your returns so much less? A.—Yes, but we had to provide for all the business that came in, take care of it so to speak.

Q.—And you were pushing it? A.—Yes.

Q.—And that is considered desirable from the standpoint of economy that you should get all the business you can? A.—Just so.

Q.—Were you surprised at the volume of business you were doing? A.—I must say I was, it was more popular than we thought.

Q.—Or you had perhaps more active agents? A.—Perhaps so, it depends

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on the agent, the agent does the business.

Q.—When did you make the first call upon the shareholders in the National Agency Company? A.—The dates are given in the books, and I would rather refresh my memory from those dates; if you have collected them together I would be very glad to admit them.

Q.—Can you fix about the date and I will have it looked up for you; the first call that was made upon the shareholders of the National Agency? A.—That would be before the organization.

Q.—I mean the first call beyond the 25 per cent? A.—I wish you would have some one go through the books and pick out the dates, and I would submit to the statement.

Q.—Mr. Carrie is good enough to give me the date; 28th November, 1903, is the first? A.—Yes, page 43 of the Board minute book: "Moved and seconded: As authorized by by-law 16," etc. (Reads to the words "and observe.")

Q.—When was it made payable? A.—On the 3rd December, 1903.

Q.—Was that call made in view of the fact that the annual return to the Government of the Union Life would be made on the 31st December? A.—Most likely.

Q.—And it was intended by that call to get in funds, to put money by way of premium into the Union Life, with a view of showing unimpaired capital? A.—Exactly.

Q.—How did your shareholders take that at the next annual meeting? A.—They took it all right, there has never been any exception as far as I know.

Q.—Was that the call which made some people get out? A.—Most likely. When I say no exception was taken, many of the shareholders represented, and it no doubt was the fact that they did not expect to pay more than 25 per cent. The Board took that into consideration and proposed to relieve them of their unpaid stock, to give them paid-up stock certificates for the amount actually paid in, and then take powers of attorney from them to transfer their subscriptions to purchasers who might be secured through the agents of the company; that is what we call the transfer stock. A great many transactions took place in consequence of that, but ultimately we had made

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good all those subscriptions in that way.

Q.—When did you commence putting the stock out at 50 per cent. premium? A.—I have not the date.

Q.—Page 45 of Executive minute book) on the 6th June, 1903, I see Mrs. Elizabeth Elliott of St. Catharines applied for five fully paid up shares in the capital stock of this company at 50 per cent. premium, and that application was accepted, so that on the 6th June, 1903, you were issuing your stock at a 50 per cent. premium? A.—Yes.

Q.—The call was made in November, 1903; was the stock notwithstanding that call still issued at 150? A.—Yes. The change was not made in the Treasury stock. We proceeded to sell the transfer stock until it was exhausted, and we held back the Treasury stock pending that.

Q.—Your next call was made in August, 1904? A.—That would follow in the same way, that was no doubt made in order to assist the Union Life.

Q.—That was another call of 25 per cent? A.—Yes, I think they were all 25 per cent. calls.

Q.—Did the policy of yourself and your co-directors with respect to not calling up more than ten per cent. upon the Union Life stock ever vary at all? A.—No; it was thought better to continue the payments on premium account rather than call on capital account.

Q.—Why? A.—To preserve the 90 per cent. of liability as additional security to the policyholders, although that is not taken into account in the insurance returns still it was a liability.

Q.—I want to talk to you a little about that; you spoke about preserving 90 per cent. liability for the benefit of the policyholders. The course you were taking was calculated to bring about, as it did bring about an entire payment up in full of the capital stock in the National? A.—Yes.

Q.—When the capital stock of the National was fully paid up its resources were at an end so far as that was concerned? A.—So far as capital stock was concerned..

Q.—Its liability could only be measured, apart from any assets it had earned, by liability for unpaid capital? A.—Yes.

Q.—And when your capital stock was fully paid up in the National Agency its 90 per cent. liability to

call in the Union Life was a mere figment? A.—Except as you say as regards amassed assets, or moneys obtained or obtainable in some other way; it cannot be regarded as a mere figment by any means.

Q.—There is not any way, apart from amassed assets, of enforcing the liability for the 90 per cent. against the National Agency Company? A.—Not against the National Agency shareholders.

Q.—That is what I meant when I used the word figment? A.—Yes.

Q.—You say your desire was rather to preserve that as a security to the policyholders, do you modify that at all or add anything to it? A.—I don't think I would modify it, because we have always thought the National Agency would be able to take care of that 90 per cent. were it ever called upon to do so.

Q.—By issuing more stock? A.—Yes, or debentures and so on. Hitherto up to this time we have had practically little difficulty in securing the funds that were necessary, and we did not anticipate any more difficulty in the future, the business was good enough to recommend itself.

Q.—You do not think that your two companies ever varied in the policy with respect to not paying more than the ten per cent. upon the Union Life stock? A.—We have had discussions upon that amongst the members of the Board. As I say it was a question of policy and the result of the discussions was it was more prudent to leave the matter in statu quo so to speak.

Q.—Is it true that as a matter of fact adopting the policy and the method which you did enabled you to show what you could not upon other policy have shown an unimpaired capital of the Union Life? A.—If all the money that has been paid by the National Agency to the Union Life had been paid in on capital account there would have been an impairment.

Q.—There would have been an impairment all along? A.—I do not know to what degree, but it is sufficient for your purposes if I say there would be an impairment.

Q.—A serious impairment? A.—A serious impairment no doubt.

Q.—Is it an advantage to a life insurance company to be able to say to the public generally "Our capital account is not impaired"? A.—I think so.

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Q.—You did at one time take the means to have the Union Life listed upon the Exchange? A.—Yes, and it is listed.

Q.—What for? A.—The object of that was to show it was a stock that could be dealt with—I think there is some reference in the last annual report about that, the question of listing had been brought up.

Q.—Describe what is the process of listing? A.—A formal application is made by a broker to the Committee of the Stock Exchange for the privilege of listing the stock at the board and dealing with it at the board. Unless the privilege is accorded stocks cannot be dealt on the board, are called off and so on. Then the application I understand is submitted to the Finance Committee of the Board, I think it is called, and that Finance Committee require the accounts, statements of the affairs of the proposed company to be laid before them, and they consider them, and if sufficient, the company, is solvent, it is authorized to be placed on the Stock Exchange and dealt with.

Q.—It involves the payment of a fee? A.—It involves the payment of a fee.

Q.—Do you remember the amount of the fee? A.—Two or three hundred dollars I think. I may say frankly that was done at my instance to show the stability, and that the affairs of it were being conducted properly, so that ultimately if the Union Life had any reason for putting its stock on the market that it could be done.

Q.—Of course it is not intended this bidding by the broker, which is a necessary part of the process of listing, should be a real transaction at all? A.—They require you to put one transaction through; that is more or less fictitious, it is from one broker to the other, it is to put a price on it.

Q.—I should say it was altogether fictitious in the case of the Union Life? A.—There was a bid, and there was a sale and bought account.

Q.—This is the record in the Executive Minute book pages 48 and 49: "The President reported having authorized" (Reads).

Q.—What does ten per cent. stock mean? A.—That is the value we put on the Board, it would be quoted as a ten per cent. stock at 200.

Q.—What you mean is a stock paying ten per cent.? A.—Yes.

Q.—I don't want you held to that if that is inaccurate? A.—I am only speaking of it from what is said there.

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Q.—I see Mr. Evans shaking his head as though he did not agree with you? A.—I am subject to correction in that.

Q.—If that was the meaning of it, that it was to be quoted as a stock paying ten per cent. dividend, that was not justifiable at all? A.—Quoted as a stock it would be at a price that would be equivalent to a ten per cent. stock.

Q.—That was one of the things that was to be brought about, that is to list it as a stock of that class? A.—Yes. A price had to be put to the Board and the introducing broker I understand it makes that price.

Q.—As a matter of fact the Union Life never paid any dividend? A.—No.

Q.—Has not had anything to pay it with? A.—No.

Q.—If the intention was to have these listed among that class of stocks, class of stocks which might be supposed to carry a ten per cent. dividend, that was not according to the fact? A.—You could not quote them as actually carrying ten per cent.

Q.—Or as likely to carry it in any near future? A.—They asked for a basis of price, and it was suggested it should be put on a ten per cent. basis, that is a stock carrying ten per cent.; that was the first transaction to be put through.

Q.—(Continues reading minute), "To have the shares quoted as on ten per cent." etc. (Reads)? A.—Oh yes, I quite understand it now, ten per cent. paid up.

Q.—Stock upon which ten per cent. had been paid up? A.—Yes; it should have been paid up ten per cent. stock.

Q.—A stock upon which ten per cent. had been paid up? A.—Yes.

Q.—Then I see a slip from some newspaper pasted in there: "Union Life Insurance stock was listed," etc. (Reads). A.—That was put in officially.

Q.—For the purpose of lending, according to the rules of the Stock Exchange an air of versimilitude? A.—Exactly. I have not noticed any entry since.

Q.—I suppose the National Agency held all the stock, and it must have been the National Agency or its broker that offered it for sale? A.—Yes.

Q.—And it must have been the broker for the National Agency that bid 150? A.—There was a cross transaction there. We were required to make one quotation and have one transaction.

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Q.—Whoever acted in that transaction as buying and selling was acting for the National Agency Company? A.—Yes, no doubt about that.

Q.—Then I want to have you explain to me, the National Agency Company of Toronto on the 19th of April, 1904, assigned to the Trusts & Guarantee Company of Toronto, trustees under the terms of the Trust deed, of April 14th, 1905, 5,100 shares in the capital stock of the Union Life; what was that in connection with? A.—That is as trustee for the debenture holders. I brought you up the form.

Q.—This is the debenture? A.—Yes, as issued under that, and that is the trust deed.

Q.—It assigns 5,100 shares in the capital stock upon which ten per cent. and all premiums had been paid, and also all franchises and so on? A.—Yes.

Form of debenture, and the trust deed of April 14th, 1904, referred to marked as Exhibit 114.

Q.—That change in the ownership of the stock of the Union Life does not seem to have found its way into the Government returns? A.—That was done on my advice. The original application was made for license for the Union Life and Mr. Fitzgerald had objected to the trustees appearing in the stock lists, list of stockholders, and I advised the company very probably the Trusts and Guarantee Company would not be accepted as a shareholder because they were not liable other than as trustees. That was the only reason.

Q.—That, you say, was founded upon an objection in the Department to— A.—To trustees appearing.

Q.—Did you understand the objection of the Department went so far as to authorize you to return the National Agency as owners when in truth and in fact the shares were vested in the— A.—I thought so; because whilst there was a nominal transfer to the Trusts and Guarantee it would not be effective until default had happened, and whenever proceedings would be taken to realize upon those shares naturally the purchaser would have to assume the liability. If we were wrong in that I should be very glad to have the returns corrected; but that was the view I had taken of the matter.

Q.—I see page 72 of the Executive minute book this note: "The correspondence with this company relating to special financial arrangements in

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connection with Nova Scotia paper—" (Reads.) That is headed— A.—Nothing transpired out of that.

Q.—What was the subject matter? A.—I was not familiar with it, it was conducted altogether by Mr. Evans. Nothing transpired.

Q.—The Century Life is the next (Executive Committee book, page 72), "Correspondence with Messrs. Durand and Lett"—(Reads)—What was the Century Life, and tell us what you did? A.—The Century Life was a company incorporated by Parliament with the usual powers of a life company I think in the year 1901 or 1902 by some gentlemen in British Columbia with the head office in Vancouver. That Company proceeded, at least the provisional directors of that company proceeded to get subscriptions to its stock and succeeded up to a limited extent. That charter required the usual amount of \$62,500 to be paid up in cash before it could apply for a license to go into business, of which \$50,000 was to be deposited in securities in the Treasury Department, that is the usual provision. It appears that they were unable to get the full stock subscribed necessary, and they had incurred a considerable amount of expenditure. They had secured two extensions of time, I think, in which to apply for their license to go into business, and as they were somewhat in difficulties I take it, which led them to desire to make a transfer, or to be taken hold of by some other company so as to make this subscription good. It came to our notice and the correspondence you refer to were simply letters from Mr. Durand and Mr. Lett of Vancouver and Victoria, to whom I had written on the subject to say that the Provisional Directors were prepared to make an arrangement with the company for the taking over of the subscription list on reasonable terms, and suggesting my going out there. So I went out under the authority of the Board and an agreement was made.

Q.—Is that agreement here? A.—Yes. An agreement was made on the 4th August, 1904, between the Provisional directors of the Century Life and the National Agency Company by which it was provided that the assets of the Century Life Insurance Company should be handed over to the National Agency, the assets consist-

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ing of about, I think, a bank balance of fifteen or sixteen thousand dollars, the National Agency Company undertaking on its part to exchange its shares at the rate of \$150 a share for the Century Life certificates at the rate of 80 cents on the dollar; the two companies between them sharing the expense that had been borne. That agreement was subsequently submitted to a meeting of the shareholders of the Century Life in Vancouver on the 16th August and was ratified.

Q.—Had the Century Life done any insuring business at all? A.—No.

Q.—It had not qualified itself to do any business? A.—No, it was not in a position to do business. I may say so far as the National Agency was concerned what we thought of more was to secure the influence of those subscribers for stock that were out in British Columbia and that territory in support of the Union Life, for whom we expected probably in a short time to form an Advisory Board at Vancouver, the same as has been done at Halifax, and go into business there. I may say this agreement has been carried out practically on both sides.

Q.—You have now, by virtue of that, a considerable number of shareholders in British Columbia? A.—Yes, we have I suppose forty or fifty.

Q.—And are you doing business there? A.—Not yet.

Q.—I mean the National Life? A.—No, but we hope to.

Q.—That agreement which is the 4th August, 1904, is between the Century Life and the National Agency. The Century transfers all its assets, rights and credits of every nature, including moneys standing to its credit with accrued and accruing interest in any bank. Then the Century Life covenant with the National Agency that there are no outstanding liabilities, and that the balance in the bank, without including accrued or accruing interest, is \$16,299.23, and further that it has subscribed capital stock of 918 shares duly allotted and no more. In consideration of the aforesaid the National Agency undertakes and agrees to allot or transfer to the present shareholders of the Century according to their respective shareholders fully paid or partly paid shares at the price of \$150 for each \$100 share in the National, and to allow and credit as payment thereon

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80 per cent. of the amounts heretofore paid in in cash by the said shareholders respectively. In other words they are to take it on a premium of 150 and they are to get credit for 80 per cent. of what they have paid on the Century? A.—Yes, we adjusted on that basis. The Century shares were not worth perhaps 80 cents on the dollar. On the 9th September, page 76, you reported that the funds to the credit of the Century, etc., (Reads to the words "daily balance")—that was approved? A.—Yes.

Q.—At page 82 of the minute book of the Executive Committee, "The President reported that good progress was being made," etc. (Reads to the word "agreement.") Pages 86 and 87, "The President reported that good progress had been made in effecting exchange of shares," etc. (Reads to the word "therefor.") At pages 90 and 91, "This Committee hereby approves of the communication of the 7th instant," etc. (Reads to the words "Century Life Assurance Company")? A.—The National Agency in order to organize the Century had subscribed for stock in the Century and there was no further object in its being retained there, as we decided not to put the Century into business, and application was made to cancel, which was accepted.

Q.—Page 91: "The following transfers of shares held by this company," etc. (Reads to the words "were authorized.") What does that mean, "held by"? A.—Held by the National Agency Company in the Century. Transfers were authorized to those three gentlemen in order to hold a meeting in Vancouver.

Q.—Those gentlemen being residents? A.—Yes, of Vancouver.

Q.—"All of which to be fully paid," that means fully paid-up stock? A.—Yes. Those shares were subsequently re-transferred.

JUDGE MAC TAVISH: Are you putting in the agreement with the Century Life?

MR. SHEPLEY: I am taking the responsibility of not putting it in. It does not seem to me to be of sufficient importance. Had it better go in?

MR. McLAUGHLIN: I do not think so.

JUDGE MAC TAVISH: Very well.

MR. SHEPLEY: Does the Century Company keep up a staff? A.—No.

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Q.—Has it a Board? A.—It did, but they have all been retired out; it was organized and we have disorganized.

Q.—How long was the Century carrying on business by a Board after you acquired it? A.—Up till February of this year.

Q.—And were salaries paid? A.—Only to me.

Q.—You were an official of the Century? A.—Yes.

Q.—What office did you hold? A.—A.—I was the Manager.

Q.—Who was the President of it? A.—Dr. Hughes of Galt.

Q.—You received a salary? A.—Yes.

Q.—Tell us how much? A.—\$50 a month.

The following answers are given by Mr. Carrie until a change is indicated.

Q.—I take the yearly statement which I have already referred to at the end of 1904, and I show you a re-writing of that, as to which I have been told the same method has been applied that I applied in the other cases, you have been checking that, or following it? A.—Yes. I might make a statement in connection with following that statement. Here I exhibit the company's annual report.

Q.—That is 1905? A.—I am speaking of 1904—

Q.—I was only taking the account as you presented it at the end of 1904? A.—My remarks were going to apply to 1904 as well as to 1905.

Q.—Perhaps it will get us a little out of the order in which we have been going. This purports to be a re-writing of the assets and liabilities of 1904 upon the same footing as we did with the other accounts since the Union Life was incorporated? A.—Yes.

Q.—And that treated in that way shows the net deficiency at the end of 1904 of \$87,930.61? A.—As made up in that fashion.

Q.—Whereas made up as submitted to the shareholders upon the basis on which the company proceeded the surplus was \$33,002.64? A.—Yes.

Q.—Was the statement submitted to the shareholders on the 31st December, 1905, prepared upon the same footing as the previous statements which we have been examining? A.—As to the accounts?

Q.—Yes? A.—Not as to all the accounts, no, with the exception of the valuation on the stock of the Union Life Insurance Company.

Q.—What difference was made with regard to the stock of the Union Life Insurance Company in the statement of assets and liabilities at the end of 1905? A.—A valuation was placed upon it.

Q.—That had never been done before in the preparation of these statements? A.—Not in the manner in which it had been done at this time.

Q.—What you had done before was to find out what cash and other assets had gone into Union Life stock in the previous stock-taking? A.—And also figuring on the deferred premiums.

Q.—Certainly; that enters into it too? A.—Yes.

Q.—Will you show me from this just what change you made in method; the first item here under the head of assets is Union Life stock, \$615,949.10, how did you arrive at that? A.—Possibly I had better refer to the journal. The weekly debit on December 31st, 1905, amounted to \$3,628. This multiplied by 130 times amounts to \$471,640.

Q.—What next? A.—The general branch premium amounted in December 31st to \$34,309.10.

Q.—What does that mean? A.—That means the value of the premium on the general branch business.

Q.—What do you mean by the value of the premium, do you mean the premiums falling due on the general branch business during the whole year or what? A.—Premiums due on which the company had previously paid a commission for the collection of and procuring of the business.

Q.—Those were premiums which were to come into the Union Life? A.—Yes.

Q.—In respect of business written and the premiums being due and deferred? A.—Already on the books of the company.

Q.—Due and deferred? A.—Yes.

Q.—Due? A.—I believe. I would like to have Mr. Evans give a fuller and possibly a more correct explanation of that item.

Q.—What you understand it to be is— A.—It is the value of the general branch business on our books as of December 31st, 1905.

Q.—That is what you have to get out of it by way of premiums in respect of considerations which had then been completely executed by the company? A.—Yes.

Q.—What else? A.—We find surplus, Union Life surplus of \$110,000.

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Q.—What does that mean, Union Life surplus? A.—Surplus after providing for the capital.

Q.—That includes the capital? A.—Yes.

Q.—You have taken the surplus of the Union Life not according to its Government return exactly but an estimate perhaps? A.—Very close.

Q.—We have the Government return, that is \$12,000 there? A.—Yes.

Q.—You have put here at all events \$110,000, and that gives you a total of \$615,949.10; and that is the same which appears in the annual statement of yours? A.—That is correct.

Q.—I see in the journal you have "Less ledger value \$520,275? A.—That was the actual cash that had passed to that account.

Q.—Cash and assets? A.—Cash and assets.

Q.—That is more than the method that you had heretofore pursued in making up your accounts, the cash and assets which appeared upon your method of making up the accounts to have passed into the Union Life on account of stock and premium? A.—Which was a correct method.

Q.—That is not for you to say, I do not say it is incorrect; that was the method you follow? A.—I do not quite see the question.

Q.—\$520,275 is the sum you would have put to the credit of assets if you had followed the same method that you followed during the two preceding years? A.—The amount of \$520,275 is the amount in cash that has actually gone to the credit of that account paid up to 31st December, 1905.

Q.—If you had said cash and assets, or if you would answer my question it would not give me so much trouble. Take this statement of the 31st December, 1903, and show me which of the items in this corresponds to the \$520,000 in this? A.—The first item \$272,275, that is the only item.

Q.—If you had pursued the method of making up the statement that you pursued in 1903 and also in 1904, you would have had as the first item in your assets \$520,275? A.—That is correct.

Q.—What is this difference? A.—The difference is \$95,674.10.

Q.—What is that? A.—Which had to be placed to the credit of that account in order to adjust it and bring it to that amount, \$615,949.10.

Q.—In order to bring up what would otherwise have been \$520,000

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to the \$615,000 you had to add \$95,674.10? A.—Yes.

Q.—Was that done? A.—Yes.

MR. McLAUGHLIN: That was found by the valuation of the business.

MR. SHEPLEY: He has told us how it was found.

Q.—We come back again to the assets; that of course is intended to exhaust the whole subject of your ownership of the Union Life A.—As the valuation based on that at that date?

Q.—Yes? A.—Yes.

Q.—You are not entitled to any subsequent addition by reason of any Union Life assets? A.—No.

Q.—That is the theory upon which this is made up? A.—Yes.

Q.—Stocks, bonds and debentures, those are other securities you hold? A.—Yes.

Q.—Balance due from shareholders? A.—Includes bills receivable or sundry amounts worked in under that head for presenting the report.

Q.—Organization expenses, our old friend still appears here? A.—Not increased.

Q.—Due from Century Life account \$4,858.89? A.—Those are amounts that the due by conversion of Century Life stock for National Agency Company; these are balances still due by those shareholders now in the National Agency who were at one time shareholders in this Century Life stock.

Q.—Suspense? A.—Those are made up of a number of ledger items that are redeemable, probably four or five items, they have been grouped there.

Q.—What do you mean by redeemable? A.—Payable to the National Agency Company at an early date.

Q.—Total assets according to that of \$730,775.87; then your liabilities, the stock \$465,900.

Q.—That has been actually paid? A.—That is the actual amount subscribed for.

Q.—And is there some of it not paid? A.—There is a small balance still due.

Q.—Debentures? A.—Those debentures are outstanding.

Q.—Century Life shareholders? A.—It is the liability the company have charged themselves with on behalf of the Century Life which have not been converted.

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Q.—Bills payable, what is that for, \$13,260? A.—I think there are two items there due the Union Life.

Q.—In respect of your working arrangement with them? A.—Yes.

Q.—Suspense, shareholders' credit in course of adjustment, \$10,491? A.—Yes.

Q.—That is something which may eventuate in a liability? A.—That is right.

Q.—Current ledger balances, Union Life and agents, there is something else due? A.—Yes, these are balances due the company's agents, brokers in the field on account of commissions.

Q.—Which company? A.—The National Agency Company's.

Q.—What are they doing in the field? A.—The brokers that may be outside.

Q.—Doing what? A.—Serving the purposes of the company's business.

Q.—What purposes are they serving, what are they doing? A.—Placing debentures and stock.

Q.—It seems a large sum of money, but if you had it you had it; they are not canvassing insurance? A.—No.

Q.—Contingent account, what is that? A.—That is the difference for which you have taken credit in balance due from shareholders, that is the amount of premium on unpaid shares in which we have taken credit in our premium account.

Q.—What is the rest account? A.—That is surplus between assets and liabilities.

Q.—Have you followed the re-writing made by Mr. Dawson of that year's statement? A.—I have.

Q.—What plan has he followed, the plan he followed in connection with other years? A.—Somewhat the same way.

Q.—What result does following that place it—a deficiency of \$101,241.44? A.—That is correct as appearing there in that statement.

Q.—That is following the method which he has followed? A.—Yes.

Q.—Following that method of writing the assets and liabilities there is a deficiency of \$101,241.44?

MR. LANGMUIR: As against?

MR. SHEPLEY: As against surplus on the method adopted by the company of \$51,863? A.—I would like to explain Mr. Dawson's total inability to show actual deficit as he does; in the first place he takes the condensed statement which is prepared for publica-

tion of the National Agency Company, and without knowing the clustering or grouping of the figures he undertakes to analyze and to deduct certain items from them not knowing what they are for.

Q.—I am afraid I must ask you not to criticise? A.—I do not wish to criticise Mr. Dawson's work, I am in a position to know he is amply able to execute the work under other circumstances.

Q.—Just wait a moment; you are not put in the box by me at all events for the purpose of doing anything but answering questions you are asked, not for the purpose of criticising the work other people may do. There are others to do that besides you? A.—I wish just to make his clear, because I am in possession of the facts which enable me to so state that. I thought possibly you were not aware of them.

MR. McLAUGHLIN: The witness does not want to criticise, and there is no want of courtesy on Mr. Carrie's part to Mr. Dawson, but Mr. Carrie wishes to make plain—

MR. SHEPLEY: We know he does not agree with the method of making up the statement; but the method of making up the statement will either commend itself or it won't.

MR. McLAUGHLIN: I ask that Mr. Carrie be permitted to complete his explanation.

MR. SHEPLEY: Q.—Would you say that an accountant taking hold of your books will find it very difficult to construct a statement of his own? A.—At a glance of a half hour or two hours' work he certainly could not get knowledge of our books and strike off a statement, unless he had the key to it. A statement may be boiled down.

Q.—I am not criticising your method of book-keeping, I am not saying anything about that; I ask you whether it is not difficult for an accountant who is not familiar with your book-keeping, for him to take up your books and write a statement of assets and liabilities? A.—And do it correctly; that is just the very point I wish to bring out, that it was impossible for him to do so or for any accountant; at the same time I do not wish to criticise or to cast any reflection on the work of Mr. Dawson, for which I know he is amply able.

Q.—Your answer to my question is yes? A.—Yes.

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Q.—Yes, with a little paint on it?
A.—Yes, with a little smile on it.

MR. McLAUGHLIN: I think the witness should be allowed to make an explanation.

JUDGE MACTAVISH: He has explained it.

MR. McLAUGHLIN: If a witness is only allowed to answer the question put to him and not allowed to give his explanation the full facts wont come out, and after all what we want is the full facts.

JUDGE MACTAVISH: I think he has explained it.

MR. McLAUGHLIN: I think there is an explanation which Mr. Carrie will be able to make that has not been made, and will probably not be made.

The following answers are given by Mr. Symons until a change is indicated.

MR. SHEPLEY: Q.—I think there is only one other matter I want to ask you about. Mr. Evans has already told us that in view of the fact that this inquiry had been directed it was thought better not to pay any dividend? A.—Not to pay as large a dividend.

Q.—And what you did pay was what? A.— $3\frac{1}{2}$ per cent, or at the rate of 7 per cent.

Q.—With a statement with regard to the future? A.—We hoped to be able to do better in future.

Q.—To make it up by a bonus; I think this book contains the official account of your last meeting of shareholders? A.—Yes. We will be very glad to have you mark that as an Exhibit.

Report of annual meeting referred to marked as Exhibit 115.

Q.—I see at the bottom of page 17 of this pamphlet that a question was asked by a shareholder where the dividends had been drawn from, do you see that? A.—Yes.

Q.—I don't know that you intended to do so, but Mr. Evans does not seem to answer that explicitly at the top of the following page? A.—In what respect?

Q.—What is that ten per cent. of the premium income of the Union that is spoken of there? A.—That is ten per cent. which the National Agency received net out of the premium income of the Union Life.

Q.—What do you mean by net, because that is not the percentage mentioned in the agreement? A.—The percentage is 20 per cent., I think it

is estimated that is worth ten per cent., or something, I have not worked that out, I do not know quite. At any rate there is a percentage arising of net to the National Agency out of that agreement.

MR. McLAUGHLIN: That follows from the agreement. The agreement provides for 50 per cent. commission, and the National Agency spend 80 per cent. of that, which leaves them ten per cent. of the whole thing net.

MR. McLAUGHLIN: In already.

MR. SHEPLEY: The agreement is in, yes. Are you able to make a statement as to what 10 per cent. on the premium income of the Union Life amounts to? A.—No, I could not.

Q.—Are you able to say whether or not it comes to such an amount as enables 10 per cent. to be paid upon the capital stock of the National Agency? A.—I should think so, although I could not say without examining the accounts.

Q.—Then you have not considered at all? A.—No.

Q.—Then what is the meaning of this statement, Mr. Evans: "In addition to this the premium on the capital stock has of course been credited to profit and loss account." A.—That is the premiums on the capital stock of the National Agency, that is an accretion that can be distributed in the way of dividends.

Q.—Has not that all gone into the Union Life? A.—Well, it was entitled to be held back. It went into the Union Life and I suppose it is entitled to replace it in some way. It is available to the shareholders.

Q.—You mean it can be taken from the Union Life? A.—Yes.

Q.—Although it was paid in as premium on the capital of the Union Life. I would like you to think about that a moment, because some statements that are made in this (Ex. 115) I do not understand and I want to understand them. I am not able to see how moneys that have been paid as a premium upon capital stock in the Union Life can ever be got back, can ever be asked back? A.—They could not come out of the Union Life, that is perfectly certain.

Q.—Then what can it be taken out of? A.—The premium on the capital stock of the National Agency is divisible for any purpose of the National Agency.

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Q.—If you have got it, but if you have paid it all away how are you going to divide it, you cannot take it out of the capital stock, can you?

A.—You cannot take it out from a source from which it has gone, that is quite clear. If there is any money in hand which can be used for the same purpose, I take it that it can be.

Q.—If there is any money in hand which is available for distribution?

A.—Yes.
Q.—That is any profits? A.—Yes. Money is not earmarked, so to speak.

Q.—Then when it is spoken of as a source from which dividends can be paid, that can never be so unless it is available? A.—Oh, certainly, you cannot do it unless it is available.

Q.—And in respect of the dealings with this premium in respect of the Union Life, it is not available, that is the end of it? A.—I would not take it in that way, I think you would take the accounts and adjust them.

Q.—What accounts? A.—The accounts of the National Agency Company, the receipts from all sources on one side and the expenditures of all characters on the other side, and from whatever source they were received, for the National Agency shareholders, except on capital account, would be divisible for any purpose of the company.

Q.—The shareholder who has \$100 of stock has paid in addition to the \$100, \$25 or \$50? A.—\$25 more.

Q.—As the case may be, that \$125 or \$150 has in fact gone into the coffers of the Union Life and it has not gone there as an accretion of your company's capital in the Union Life, that is true, is it not? A.—Well, taking the accounts, taking the value of the Union Life's stock as given in the annual return, I take it there is an accretion to that caused by the placing of moneys on premium account to the credit of the Union Life.

Q.—You may get it out of the Union Life as a dividend upon your capital when it has earned profits, but you cannot get it back as a premium that you paid on your stock, can you? A.—Oh, no, you could not get it back that way.

Q.—Then if your company earns enough to pay the 10 per. cent. dividend upon its stock, then it can pay it, and if it earns enough besides to pay back the premium it can pay that? A.—Yes.

Q.—It never has earned anything more than enough to pay the 10 per cent. dividend? A.—No I don't suppose it has. Never tried it.

Q.—Then we pass on from that and then comes the question which has divided us upon these accounts. "To the earnings for the year must also be added deferred commissions on existing and paid for business." That is a question for the Union Life not for the National Agency? A.—No, that is a question for the Union Life. I suppose the National Agency, as managing agents and being entitled—

Q.—As owner? A.—As owner and also as agent, would be entitled to have the accounts struck to ascertain what those deferred premiums are and to ascertain what its proportion would be. I suppose that is what is meant there.

Q.—Then the question is asked, has the dividend been paid out of the capital stock, at page 19 again, to which Mr. Evans responds, "The statement which I have shows where the dividend has come from. If the dividend had been paid from the capital it certainly would show in the statements which have been sent out to you at the close of each year." "Mr. Carrie: As a matter of fact you have not paid dividends out of capital?" "Mr. Symons; We have not." That is all I want to refer to from that. Then what did you say, or was it somebody else who was answering about that, arriving at the value of your interest in the Union Life by multiplying the weekly debit by 130? A.—I answered a question as giving the reason for valuing that asset in that way and our authority for that.

Q.—Your authority for that was? A.—Our consulting actuary.

Q.—And I think you gave us the actual correspondence? A.—Yes I think so.

Q.—You visited Mr. Harvey and had a consultation with him in Jersey City? A.—Yes.

Q.—You came back and wrote a letter to Mr. Evans? A.—Yes.

Q.—And subsequently a letter was received from Mr. Harvey? A.—Yes.

Q.—And those two letters cover all the work Mr. Harvey did with you and what he wrote about it? A.—Yes.

Q.—Will it be necessary for you to give any directions, Mr. Symons in order to have your people make out for us, so that we may have it here in the morning—I understand you are going away for to-morrow—prepared

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in a similar shape to the preparation made in the case of the Union Life Company, a statement of all securities, the movement of securities, the sales and purchases of securities, the commissions paid upon all these transactions, through whom they were had, and the salaries of your various officers in the National Agency, similarly to the way in which you dealt with the Union Life? A.—Yes, if you will make out a memorandum of just what you want I will see that it is done to-night.

Q.—I will do that by marking a copy of the questions that I put to the Insurance Company. With that I think I have completed what I have to ask Mr. Symons.

MR. HELLMUTH: I do not think there is anything that I can usefully follow up. My learned friend has covered the investigation of the affairs of the National Agency as fully as I think they can be, and, as I have said before, the actuary is going to speak as to the business of the insurance company and I will then have something to say.

MR. SHEPLEY: All witnesses of course are subject to recall.

JUDGE MACTAVISH: Yes, they must understand that.

MR. HELLMUTH: I thought that if when the actuary went in there was some practical part of the insurance effected by this company, Mr. Evans might be put back in the box with regard to that part. That is why I did not go into the matter with Mr. Evans, I understood that he would be subject to recall.

JUDGE MACTAVISH: Yes, the witnesses are available at any time.

MR. SHEPLEY: I said I would put in what may be called the actuarial correspondence of December, 1905. The first is Mr. Symon's letter to Mr. Evans, detailing the result of his visit to Mr. Harvey at Jersey City. That is followed by a letter from Mr. Harvey himself stating the conclusions that he has arrived at, independently of course of Mr. Symons statement of them. (Exhibit 116.) If I might suggest, as it is nearly the adjourning hour it is hardly worth while to commence with Mr. Harvey so late in the afternoon.

(Adjourned to 10.30 on Friday the 11th day of May, 1906.)

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TWENTY-FIFTH DAY.

MORNING SESSION.

Toronto, May 11th, 1906.

MR. SHEPLEY: It is an unfortunate thing in respect of the reporting of yesterday's proceedings in one of the newspapers—the newspapers are supposed to be very careful, and on the whole they are very accurate—but it is an unfortunate thing that the state of facts, whether good or bad, attributed yesterday in the evidence to the National Agency, appeared so as to be attributed this morning in one of the newspapers to the Union Life. I desire to make that correction publicly, because a statement of that sort is calculated to do the Union Life Company perhaps considerable harm. We were not discussing the balance sheet of the Union Life yesterday at all, but of the National Agency Company.

JUDGE MACTAVISH: I think it is right that any misrepresentation of that kind should be corrected at the earliest moment, and if the report tends to give a wrong impression attention may properly be drawn to it. The company I think is entitled to that explanation.

CHARLES G. HARVEY, sworn, examined by

MR. TILLEY: Q.—What is your occupation? A.—Actuary.

Q.—Where do you reside? A.—I have my office in Jersey City.

Q.—Carry on business as an actuary for any insurance companies— A.—Yes, as actuary of the Colonial, and consulting actuary of different companies.

Q.—A general consulting practice? A.—Yes.

Q.—And in particular you are the actuary of the Colonial Insurance Company? A.—I am.

Q.—Is that what it is called? A.—Yes.

Q.—How long have you been actuary of the Colonial? A.—Almost from its commencement.

Q.—How many years would that take you back? A.—It would take me back from the commencement of the company, that would be eight complete years.

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Q.—Prior to that time were you actuary for any other company? A.—I started in business over forty years ago with the London and Prudential; I entered that company as the junior clerk forty years ago.

Q.—That is an English Company? A.—Yes sir.

Q.—Does it carry on an industrial business? A.—Yes.

Q.—And then you remained with that company for some years in one capacity and another? A.—Nearly 20 years; during that time I qualified for the institute of actuaries and became a fellow of that institute, and consequently an actuary.

Q.—And then you severed your connection with the Prudential Company in England? A.—Yes.

Q.—And soon after became associated with the Colonial? A.—No, with the Metropolitan of New York.

Q.—How long were you with the Metropolitan? A.—I came out for a year, and I got homesick and went back to England, and then two or three years afterwards they urged me to come out to them again, and that time I stayed with them about 6 years, and after that I connected myself with the Colonial, and took up a general consulting business.

Q.—That brings us down to date? A.—Yes.

Q.—Are you a director of the Union Life Insurance Company? A.—I am.

Q.—When did you first become connected with the company in any capacity? A.—I think it was in the year 1902, I am not quite sure, just when they began the industrial business, and I presume just after they had purchased the North American provident business.

Q.—Both the Metropolitan Company that you speak of and the Colonial Company carry on large industrial business? A.—Yes, practically industrial.

Q.—And then when the Union Life commenced industrial business you were consulted by the Union Life? A.—Yes.

Q.—In what capacity were you consulted, what was the object of your consultation with them? A.—As to the form of policy they should issue and the rates they should charge.

Q.—They consulted you as to the terms of the particular policy they had better issue? A.—Yes.

Q.—And then having settled that what rates should be charged by the

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Union Life to make the business profitable eventually, I suppose? A.—Yes.

Q.—Then was that the extent of your connection with them at that time? A.—Yes.

Q.—Did you settle the terms of the policy with them? A.—Yes.

Q.—Has that policy any particular name? A.—Yes, it is called the Industrial Savings Bank Policy.

Q.—And that is the form of policy that is extensively used by this company? A.—Wholly used in the industrial branch.

Q.—Was that a policy that you adopted from some other company? A.—No, it is one I invented myself, based on my experience.

Q.—And used first by this company so far as you know? A.—Used only by this company. I made the company a present of the policy, and having first copyrighted it in the United States for any protection that might afford me I then transferred all rights in the policy free of all charge to them, and they copyrighted it in Canada.

Q.—The situation with regard to that is that you hold the copyright on the policy in the United States and the Union Life Company hold the copyright on the policy in Canada? A.—That is so.

Q.—And I suppose your view would be that the Union Life could not use that policy in the States without your consent, and you could not use it here without the Union Life's consent? A.—That is so.

Q.—That is the way you have divided the territory regarding the policy? A.—Just so.

Q.—Were you permanently employed by the company at that time in any capacity? A.—No, simply as consulting actuary, they paid me a small annual retaining fee, and they were at liberty at the end of any year to discontinue it.

Q.—Did that retaining fee continue for some time? A.—It has continued, I think it dated from the end of 1902, so that I would have received a retaining fee for 1903, 1904 and 1905, and I am still receiving the same retaining fee for 1906.

Q.—At a later date your connection with the company changed somewhat, did it not? A.—I became a director.

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Q.—And how was that brought about? A.—There was a vacancy on the Board and Mr. Evans wrote to me and said he would like to pay me the compliment of submitting my name to fill the vacancy.

Q.—Do you remember when that was? A.—I think it was towards the close of last year 1905, it might have been in the fall or a little later, but somewhere about then.

Q.—Was that at the time that you were discussing with them, or had been discussing with them, very shortly previous, the amount that the Union Life stock should be carried into the balance sheet as an asset? A.—No, that had not been touched at that date, and in fact I did not at once accept Mr. Evans' offer to become a director. I think I wrote a tentative kind of letter inquiring as to what my liability would be and so forth, and then Mr. Symons came up and saw me in Jersey City, and I put this question to him: Are you sure that you will in the future be able to get enough money to conduct the business of the company, because I do not wish to be identified with a failure? He assured me that he could, and I said, In that case then I will become a director.

Q.—You had in mind at that time the large outlay that is required to obtain industrial business? A.—Yes.

Q.—We will deal with that later, but your question to Mr. Symons was, Are you sure you will be able to obtain that money? A.—Yes.

Q.—To carry it over what you might call the critical period in the company's experience? A.—Yes.

Q.—And I suppose you also inquired about the shares you would qualify on as a director? A.—Yes, they had already informed me of that.

Q.—That they had some shares? A.—Yes.

Q.—And I suppose you, in the natural course of events, inquired as to whether that stock was paid up? A.—Yes.

Q.—And you found it was? A.—Ten per cent. of the subscribed capital. I think.

Q.—That is to say what calls had been made on it were paid? A.—Yes.

Q.—Did you get any assurance with respect to your liability on that stock for the 90 per cent.? A.—No, no guarantee or anything like that. As a matter of fact the National

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Agency paid for that stock, I have not paid one single cent into the Union Life.

Q.—Those would be the 25 shares that were held by another director, and they were transferred to you? A.—That is it.

Q.—And you have paid out nothing with respect to them? A.—Not a cent.

Q.—And I still suppose they are your property now, you do not hold them in trust for any person? A.—I do not hold them at all. I gave a power of attorney to Mr. Carrie to hold them for me.

Q.—You gave a power of attorney to Mr. Carrie to accept the shares for you? A.—Yes.

Q.—You spoke of the cost of establishing business, just describe first the general features of an industrial business that distinguish it from the ordinary life insurance business? A.—In the first place the premiums are collectable weekly instead of annually or quarterly.

Q.—It is weekly collection of the insurance premium A.—Yes.

Q.—And it is a collection personally made by agents, is it not? A.—Yes.

Q.—That is they call upon the insurer to obtain his money? A.—Yes.

Q.—That is universally so? A.—Yes, all the world over.

Q.—And it has never been attempted to have the insurer remit the money to the agent? A.—Yes, many a time; it has been found impracticable. If you want industrial insurance you must conduct it in a way that all the companies at the present time are conducting it, going around and collecting the money from the insured, and of course the insured has to pay for it.

Q.—The insured must pay the expense of his collector coming to him for the money? A.—Yes.

Q.—That is the first distinguishing feature; what other feature of that insurance distinguishes it from ordinary insurance? A.—The premiums are loaded much heavier to provide for the extra expense.

Q.—That is consequent upon the expensive way in which the business is carried on? A.—Yes.

Q.—Could you give me in general terms a statement to indicate the difference in loading to cover this expense? A.—Yes. In the case of an ordinary without-profit company the

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loading might vary from about 15 per cent. to 25 per cent., it will vary with different companies.

Q.—That is quite so; that is, you take the net premium which under ordinary circumstances would pay the insurance according to the table of mortality, and computing the interest at a certain rate without regard to any expense of managing the company or carrying on the business? A.—Yes.

Q.—Then you would add to that from 15 to 25 per cent.? A.—Yes, it would vary with different companies.

Q.—That is to cover the expense of managing the company and carrying on the business? A.—Yes.

Q.—If that is what you add in the case of an ordinary life company what would you add in the case of an industrial company? A.—Practically double the net premium.

Q.—You would take 100 per cent.? A.—Yes.

Q.—You would multiply by two? A.—So as to allow a marginal loading of 50 per cent. If you double the premium then when you come to spend that premium you can only spend fifty per cent. of it in order to leave the net premium intact. It would provide for an expense ratio of 50 per cent. of the premium.

Q.—That is to say 50 per cent. of all the premiums received from the insured should be spent in the expense of carrying on the business, and that would still leave the net premium to pay the insured? A.—Yes. That loading of 100 per cent. is not exact; it is not exact in the case of the Union Life, because they adopted competitive rates, and this Savings Bank policy being a more expensive policy for the company to carry it follows that the marginal loading is rather less than 50 per cent., and it varies from pretty nearly 50 per cent. down to 41 per cent., and you might take the average margin of loading at about 45 per cent.

Q.—I want to ask you this, not to give your information out too rapidly because we cannot follow you as readily as another actuary would; what I understand you to say is that the form of policy issued by the Union Life is an advantageous policy to the insured? A.—It is, it is the best policy issued in the world by any company.

Q.—Then the result of that means, does it, that the reserve that would be required for that policy would be higher than the reserve required on a policy not so advantageous for the insured? A.—Yes.

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Q.—That all affects the cost? A.—Yes.

Q.—And the result is that charging the same premium it would leave a little less for expenses? A.—Yes.

Q.—That is what you mean with regard to this particular Savings Bank policy of the Union Life Company? A.—Yes.

Q.—In a general way then it can be said I suppose that industrial premiums would be 75 to 85 per cent. higher for loading than the ordinary premiums of life insurance companies. A.—Yes.

Q.—You have mentioned these two matters that distinguish the industrial business, the weekly collection of premiums and the increased expense or increased premiums that must be demanded; in what other respect do they differ, are the policies of the same amount as in ordinary life? A.—In ordinary life policies it is usual to make the sum insured constant and the premium variable, whereas in industrial insurance the premium is constant and the sum insured is variable.

Q.—Put that in English? A.—You take the prospectus of any ordinary company you will find they quote rates so much per thousand of insurance; if you take the industrial prospectus you will find they quote the amount of insurance that will be given for a level weekly premium of say five cents or a multiple of five.

Q.—That is to say the premium is a certain amount per week? A.—Yes.

Q.—And then the company indicates to the person to be insured how much insurance he can get for that level premium at his age? A.—Yes.

Q.—What about the amount of insurance, are industrial policies written for as much as the ordinary policies, or are they for small amounts? A.—It would depend upon the company; some industrial companies will write up to \$1,500 or \$2,000 under a weekly premium.

Q.—That would be a large policy for an industrial business? A.—Very large indeed.

Q.—The ordinary policy in the industrial business would be up to what amount? A.—I think a company should not issue an industrial policy for more than about \$500.

Q.—The extent of the policy should be for about \$500 at a maximum? A.—And for this reason, the premium would become so heavy if the insurance was more than that that the in-

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sured should be induced rather to go into the ordinary branch and take the advantage of the lower premium.

Q.—That is a person that can afford to take insurance for more than \$500 should be taking it at the minimum cost? A.—Yes.

Q.—And that would be under the ordinary system of insurance? A.—Yes.

Q.—I suppose just reversing that statement the industrial insurance is intended for people who are not able to carry much insurance? A.—Yes.

Q.—And if they get any insurance at all it must be for a small amount, and their premium payable often, but in small amounts? A.—Yes.

Q.—And thereby they may be induced to keep up the insurance? A.—Yes.

Q.—That is the idea of industrial insurance? A.—Yes, it is principally, and was primarily a burial fund insurance.

Q.—That is, I understand you to mean it was a method of insurance so that persons could provide for a fund to bury the person insured? A.—Yes.

Q.—How small are the policies that are issued? A.—About \$15 at the youngest age for five cents.

Q.—Three cents I was told I think was the minimum? A.—Then it would be proportionately smaller.

Q.—So that the policies are as low as \$15 at any rate? A.—Yes.

Q.—That is the total amount payable under the policy? A.—Yes.

Q.—And that is justified, you say, on the idea that it would provide for a fund for burial purposes? A.—Yes, and the amount is also limited by the law.

Q.—The maximum amount that can be placed on children of certain ages is limited in some cases by the law? A.—Yes.

Q.—How old are the persons insured usually in industrial business, where is the volume of business as to age? A.—It would come in in the younger years; probably there is more insurance at the first age of the table than at any other age.

Q.—What is the first age of the table? A.—Age two next birthday in this country and in America, but in England they will take them as young as two weeks old, and it might interest you to know from my own experience that in England an agent will go round and say, There is a woman far advanced in

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pregnancy, he will book that child for insurance; and when they are two weeks old they are insured in the Prudential and other companies.

Q.—There is no limit as to age in England, there is a limit made by the companies here and in the States? A.—By the law I think.

Q.—By the law or by the companies? A.—A child must be one year of age I believe before it can be insured.

Q.—Most of them, however, would not be that young; where would the body of the insurance be, under five years of age or between five and ten or between ten and fifteen? A.—I did not bring figures as to that. I really cannot remember, but I know the bulk of the insurance is at the younger ages.

Q.—Is there besides the age of the insured and the other matters you have told us about anything else that distinguishes, so that a layman can get a proper idea of what industrial insurance involves; that you would like to explain or could explain to us? A.—I am not aware that there is any material difference between an industrial policy and an ordinary policy.

Q.—I suppose that the very method of collecting the premium brings a number of factors into play in determining whether a company will be successful or not? A.—Yes.

Q.—There would be, for instance, the district in which the company is doing business? A.—Yes.

Q.—Whether it is thickly populated or scattered? A.—Yes.

Q.—An advantage in favor of the thickly populated district? A.—As to the volume of business but not as to the quality.

Q.—What you say is the thickly populated district would make it less expensive to make the collections and do the canvassing? A.—Yes.

Q.—A greater volume could be developed in the same length of time, or greater number of collections made in the same length of time by an agent? A.—Yes.

Q.—There would be less expense for superintendence and that sort of thing? A.—Yes.

Q.—But in a congested district the mortality rate or death rate would be higher? A.—Very much higher.

Q.—And there is an advantage and a disadvantage in that? A.—Yes.

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Q.—I suppose it would be practically impossible, would it not, to carry on industrial business in rural districts? A.—No, I should say not.

Q.—Have you been in any company where it has been tried? A.—There was a company started some years ago called 'The People' Insurance Company of Norwich, Connecticut; that company was successful in obtaining a weekly collectable debit of about \$6,000 a week, and a great deal of that business I happened to know was gained in the rural districts.

Q.—Can you say whether coming from the rural district in that way it became profitable? A.—I think so. The company in question never expended much capital in obtaining its business, but then that was a great many years ago, and what was done then might not be feasible now.

Q.—At any rate we can assume this, I suppose, that companies starting in that class of business endeavor to start where the population is large? A.—Yes; take the case of where the population is three or four hundred, it might be a man living in that village would take up an agency as auxiliary to his general work, and so add a dollar or two a week to his income, but it would not pay to keep an assistant Superintendent down there, or anything like that.

Q.—Would you just outline so that we can have some idea of the way the business is carried on, would you outline the organization for an industrial business in a city? A.—First there is the agent, who is paid entirely by results.

Q.—Paid on commission? A.—Yes, on commission practically.

Q.—You are speaking of chief agents, are you? A.—No, a regular agent.

Q.—A canvassing agent? A.—Yes; an agent who is supposed to get his living out of the business. Then there is the assistant Superintendent who would have probably about five of these agents under his exclusive control. They might be in a district four or five of these assistant superintendents. If there were five there would probably be about 25 agents, and there would be one man over the whole, called Superintendent. These assistant superintendents are paid a weekly salary.

Q.—They are not paid by commissions? A.—No, they are paid entirely by salary.

Q.—And the head Superintendent? A.—He is paid the same way.

Q.—Then, are you indicating now the system that the Union Life adopts, or is that the standard system adopted by all? A.—It is universal in industrial business.

Q.—And I suppose that the city itself in which all these persons worked would be divided into certain districts or areas in which each could work? A.—Yes.

Q.—And would not be allowed to work in any other person's district? A.—Yes, and if the city was very large there might be three or four superintendents. In some of the American cities there are three or four superintendents there of the same company.

Q.—That involves a good deal of expense? A.—Yes.

Q.—And I suppose there would be a substantial expense to the company by defaulting agents? A.—Yes, chiefly in the matter of what is termed special salary.

Q.—Just indicate in English what you mean by special salary, as distinguished from any other remuneration the agent gets? A.—It is the amount paid to the agent as a new business fee.

Q.—That is the special salary? A.—Yes.

Q.—Each agent has a book in which his weekly debit appears for him to collect? A.—Yes.

Q.—That is one of the things he has to do, to collect, or attempt to collect his weekly debit? A.—Yes, for that he is paid 15 per cent. commission.

Q.—He is paid a commission at 15 per cent. on the weekly debit so far as he collects it? A.—Yes.

Q.—Besides collecting the weekly debit it is his object to add new business so that his weekly debit will be increased? A.—Yes.

Q.—On his new business he gets what you call the special salary? A.—Yes.

Q.—And how is that computed? A.—It is computed on the net increase; by that I mean if a special salary is paid an agent when his debit is a certain figure, and that debit gets smaller on account of lapses, that he would not be paid any more special salary until he had made that increase in the debit good, in other words he is paid a special salary on the net increase in his debit.

Q.—If I understand you right it comes down to this, that if an agent

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once gets his weekly debit up to \$6—would that be an average, or is that too high? A.—That would be very low I should think for an agency to be self-supporting it ought to be about \$50.

Q.—An agent who has his weekly debit up to \$50, if it runs back to \$45 and he brings it back to the \$50 he gets nothing for bringing it back to the \$50? A.—No.

Q.—He only gets paid special salary on the progress he makes over his highest debit? A.—Yes.

Q.—No matter how long before that debit existed? A.—Yes.

Q.—And what you say is he is remunerated for this increase in debit by way of special salary? A.—They give him 15 times the weekly increase.

Q.—The weekly debit is the weekly premiums he receives? A.—Yes.

Q.—If he increases that by a dollar then the company would pay him 15 for that increase? A.—Yes.

Q.—And that would be paid to him in cash? A.—Yes.

Q.—And then he is paid a commission of 15 per cent. on the amount of that weekly debit that he afterwards collects? A.—Yes.

Q.—From week to week? A.—Yes.

Q.—Are you giving us now the rates of payment of the Union Life? A.—I fancy the agent's agreement with the Union Life is a little different. I have not a copy of it, but it is rather more favorable to the company, I fancy on the whole than that.

Q.—You are giving us now what might be regarded as standard salaries paid by industrial companies? A.—Yes.

Q.—And you think if there is any difference between the Union Life and other companies in that respect it is in favor of the Union Life Company? A.—It is.

Q.—And against the agent, so to speak? A.—Yes.

Q.—Can you tell us to what extent that is so? A.—I can show you a copy of the agent's agreement if one is in Court.

MR. TILLEY: I will put in now as an exhibit three forms of contract used by the National Life. The first is the agreement between the Union Life and the Manager, and I understand from Mr. Evans that that means the person that Mr. Harvey has described as Superintendent? A.—Yes.

Q.—Then the second is the agreement between the Union Life and the Superintendent, and you have des-

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cribed him as Assistant Superintendent? A.—Yes.

Q.—And then the form of agreement between the Union Life and the regular canvassing agents of the company; so that those will explain what, if any difference, there is between the terms that the Union Life adopts and the ones you have mentioned? A.—Yes, a slight difference in favor of the company.

The three forms of contract between the Union Life and their Managers, Superintendents and Canvassing Agents were filed together as Exhibit 117.

Q.—You were saying that there is a substantial expense to the company by reason of defaulting agents? A.—Yes, principally in the matter of this special salary.

Q.—I understood you to indicate that the special salary or the payment made in regard to increase of business, is paid in the week that the increase occurs, and is never paid again for that increase? A.—No.

Q.—It is just paid once for all? A.—Yes.

Q.—What were you going to say when I interrupted you? A.—In the case of a new company the agent has only to look to this special salary for a means of living.

Q.—Because he has no debit on his books? A.—No debit.

Q.—He has no weekly collection of any amount? A.—No. Special salary presses more hardly on a new company than it does on an old for that very reason. If an agent has a collectable debit of \$50 a week and he gets below what is termed claiming point in the matter of special salary, he has the collections on that debit to fall back upon in order to live, whereas if he has not got that debit he has no means of living at all, and he gets out.

Q.—The agent who is building up his business and has no income from collection work he has nothing substantial to lose by giving up the work at any time it is not going to his satisfaction? A.—Yes.

Q.—Whereas the agent who has been in the business for some time, and has a weekly debit he gets something to cover his expenses anyway? A.—Yes, and they will stay with the company; and then you see the company has to pay that special salary over again to a new agent. For instance supposing an agent has raised a debit of \$10 a week, on which the company would

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have paid him \$150, 15 times, and then he gets out and that debit falls down to \$8, the company cannot charge the new agent with that \$2 decrease; they have to start him from the \$8, and so they have to pay that special salary twice over; it might be three times over if they have many changes of agents.

Q.—What I understand you to say is, if one agent leaves the company and his business is transferred to a new agent then the transfer is made based on the amount that exists at the time it is transferred to the new agent? A.—No, subject to lapses.

Q.—Take it this way; supposing an agent canvassing for business gets a weekly debit of \$10 on his books? A.—Yes.

Q.—If that falls down to \$8 he cannot be paid any special salary till it comes back to the \$10? A.—That is so.

Q.—If he leaves the company when it is down to the \$8, and it is transferred to a new agent that new agent would get special salary for bringing it from \$8 back to \$10? A.—No, he would get special salary for bringing it from a lower figure, because he would be allowed a certain time in which to go over the debit and weed out non-paying business.

Q.—He would be allowed for a certain shrinkage below that, because he is not responsible for the quality of that debit? A.—That is the idea.

Q.—Is there any definite standard for depreciation, or does it depend upon the result of the attempt to collect by the new agent? A.—He is given a certain time in which to go over the debit and determine what is good and what is bad.

Q.—He is given a certain length of time for the company and the agent to come to some decision on what should be valued for the debit that was turned over to him? A.—Yes.

Q.—In the very nature of things that is a matter which would bear very hardly on a new company starting business? A.—Most decidedly.

Q.—I suppose that would be one of the chief things it would have to contend with? A.—Yes.

Q.—The re-placing of agents who had become discouraged and given up? A.—Yes.

Q.—And possibly had taken some of the company's money with them? A.—In some cases that might happen.

Q.—That is a fact is it not, that their being small amounts they would

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be hard to collect the small sums? A. Yes.

Q.—And in the aggregate it might amount to a great deal for the company, but in the case of a particular agent hardly worth while going after? A.—Yes, but the principal loss is having to pay that special salary over more than once.

Q.—Then what would you say would be the lowest debit on which the business could be said to be so established that the company would be past that danger point—I mean to say what debit should an agent have on his books before he is anchored, so to speak? A.—I think if a company had an average debit of \$40 per cent. it would be in a pretty good shape, that is only a rough estimate, you understand.

Q.—Can you say how many years it takes for a company to get its agents with that average debit on their books? A.—It would vary with different companies.

Q.—I would like to ascertain just in the same way whether it is three years or ten years or fifteen? A.—It would depend on how far a company had branched out; supposing a company was only working in the city of Toronto, supposing it only had 50 agents, it stands to reason they get that debit much quicker with 50 agents than they could probably with 500 agents scattered all over the country. I don't know that I could answer that question on that account.

Q.—That is to say every time it establishes a new agent it is like being a new company to that extent? A.—Yes.

Q.—It has to start with that agent? A.—Yes. I can say this that a company may be very careful about increasing its field force because it is so expensive; a company will generally try and start from the commencement with the field force it is going to retain for a great many years to come, and place that on a self-supporting basis.

Q.—It being a dangerous thing at any time for the company, there is danger of loss at any time for the company to try and extend that field force? A.—If it did to any extent it would be beginning over again, as far as the new territory was concerned.

Q.—Then can you say what total debit a company should have before

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it is on a self-supporting basis? A.—That would depend on the circumstances. In Canada the death rate is very low, that is to say the conditions of life as regards industrial classes are very much more favorable in Canada than they are in the United States, and that alone would enter very largely into the question you have asked.

Q.—You say that the weekly debit in Ontario would be self-supporting before the same debit in the United States would make the company self-supporting, by reason of the lower death rate here; A.—Yes, it would have a very appreciable effect indeed.

Q.—Can you say how the death rate in Canada compares with the death rate in the United States in this industrial class of insurance? A.—Yes, I can say that.

Q.—What have you to say about that? A.—The lowest death rate experienced by an American industrial company is that of the Colonial Life Insurance Company of Jersey City, of which I am the actuary. That death rate last year was 25.8 per cent. of the premiums. That is they spent that amount out of the premiums, 25.8. In the case of the Union Life they spent 15.8, or a difference exactly of 10 per cent. of the premiums.

Q.—Then what you say is that the experience of the Union Life has been 10 per cent. better in the matter of death rate than the best company in the States? A.—Yes, 10 per cent. of the premiums better.

Q.—10 per cent. of the total premium income that means? A.—Yes, of the total premiums received during 1905.

Q.—Then is there any other Canadian Company that carries on such an industrial business, so that you should make a comparison with that company? A.—No. The Metropolitan is of course an older company, and you would expect on that account a higher death rate because the average age of the insured would be greater with the Metropolitan than it would be with the Union.

Q.—Does that apply in your insurance just the same as it does in the ordinary insurance, or would that not reverse somewhat? A.—In the case of child insurance it would apply the other way because the mortality decreases.

Q.—As they get a little older it

decreases? A.—Yes. Then there is another element that must be taken into account and that is that in comparing the death rate according to the amount paid and the premiums received, that the Metropolitan are giving a policy for a much smaller amount than the Union is.

Q.—So that it would cover more persons, there would be more individuals? A.—What I mean is that the sums insured in the Metropolitan being smaller than the Union, and the premiums being the same, it would follow that the claim ratio to premiums must necessarily show smaller than in the Metropolitan, because the Union are granting policies for larger sums insured.

Q.—Do I understand that the Metropolitan is the only other company carrying on industrial business extensively in Canada? A.—Extensively, I should say yes.

Q.—That is why you refer to that company in answer to the question I put you, because there is no other company? A.—Well, there is the London Life. They issue I believe exclusively, or nearly so what is termed an endowment business, where again the sums insured for the same premiums would be much smaller than they would be under a whole life contract.

Q.—I am not asking you to compare one company with the other particularly, but I am just asking you whether this comparison that you have made between the Union Life and the Colonial would turn out generally as between Canada and the United States in the way you have stated, in other comparisons between other companies? A.—As far as the death rate is concerned?

Q.—Yes. A.—Well, as I said, the death rate of the Colonial is lower than that of any other industrial company in the United States. Very much lower.

Q.—Then is that difference in the death rate do you think owing to the conditions of life here as compared with the conditions of life of the parties who are insured in the States? A.—Very largely.

Q.—That is to say in the larger cities in the States the death rate is higher? A.—Very much higher.

Q.—Where the people are living in congested districts? A.—Very much higher. The death rate, measured by the premiums, in some of these large

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cities, as it affects the industrial insurance, may be 60 and even 70 per cent. of the premiums against 15 per cent. in the Union Life in Canada.

Q.—That would leave a gain of 10 per cent. of the premiums, that would amount to a considerable item would it not? A.—Yes. I would like to add that in the case of the Colonial they grant exactly the same sums insured as does the Union, and so the comparison between the two would be very fair in that respect.

Q.—Then I suppose from what you have said, that the death rate would be very high in the large cities in the United States? A.—Excessively so. I think I said that it has reached as high as 70 per cent of the premiums.

Q.—In certain places? A.—Yes.

Q.—That would be in the large cities always I suppose? A.—No. I have now reference to the lower part of New York City, when I say from my personal knowledge that the claim rate on the premiums reached for many years 70 per cent.

Q.—Then I suppose that the industrial insurance is placed on children who for the most part reside in the poorer parts of a city? A.—Yes.

Q.—And very little of such insurance where the parties are in such circumstances that they can reside in the better parts of the city? A.—Yes, the death rate on children insured in industrial companies is not excessive. It runs somewhere near the general population tables.

Q.—I was going to ask you that. I suppose that it has always been a matter of question whether industrial insurance, and insurance on the lives of children of such young years, whether it is justifiable or not, whether it tends to increase the death rate with the children insured? A.—I should say not.

Q.—I suppose that has been a matter of investigation and discussion from time to time, has it not? A.—Yes. I can tell you something about that.

Q.—If you have any statement to make about that, we would be glad to have it? A.—In 1895 a Bill was introduced into the Massachusetts Legislature to prohibit child insurance, and it was introduced at the instance of a society for the prevention of cruelty to children. The Vice-President of that Society was the Honorable John D. Long. In summing up his speech he said: "I ask you to reject

this Bill because it deprives the poor of a genuine benefit, because it destroys a system which is rooted in human nature, because you leave a vacuum with nothing to supply it, because you deprive the poor man of the right to bury his child in something else than a pauper's grave, and I ask you to reject this Bill not only as an officer of the Society for the Prevention of Cruelty to Children, but I ask it in the name of humanity and of equal rights."

Q.—That is the peroration, that was his summing up at the end? A.—That was the way it went.

Q.—I am just asking you for the different views? A.—Oh, I might take up the time of the Court and give you a lot of speeches, but the question had been brought up time and time again.

MR. McLAUGHLIN: Mr. Harvey might be allowed to make his full statement.

MR. TILLEY: Have I prevented you saying anything, Mr. Harvey? A.—No.

Q.—You brought out the point that I asked you to make, if it could be made, as to the argument that can be advanced in favor of child insurance? A.—Yes. It has always appeared to me too ridiculous to suppose that because there are \$15 or \$20 insurance on a child's life that the father and mother are going to murder it in order to get that money. I think it is simply ridiculous.

Q.—I am asking you to bring out the fact that there has been this contention and argument from time to time? A.—There has been.

Q.—And there has been investigation in different States and countries? A.—Yes.

MR. McLAUGHLIN: And the result of the investigation, you might ask him that. What has been the result of the investigation generally?

MR. TILLEY: The system is still in force in England and the States, and in Canada? A.—The system of child insurance, yes.

Q.—So I suppose that indicates the result without asking you anything more about the result? A.—Yes.

Q.—Then cannot you give us any approximate figure for the amount of debit that a company must have, taking conditions as they exist in Canada if you like, if there is a difference between Canada and the States, before the business will be self-supporting and profitable? A.—I

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should not like to mention any specific kind. I can say this, that if the company continues to push its business in the future as it has done in the past it will require contributions towards claims and reserve for some years to come undoubtedly.

Q.—Are you speaking now of the Union Life? A.—Yes.

Q.—That is to say, that if new business is sought for in new centres, and with new agents, there will be contributions required for some time to come? A.—Yes.

Q.—If on the other hand a conservative policy is followed, and new agencies are not established, the time when it will be self-supporting will be reached sooner? A.—Well, I think that the company would not go into new territory to any great extent, and even if it does not it will take a long time to place the present extent of business on a self-supporting basis. It has already gone as far as it should go in the matter of extension for some years to come, and I take it that the officers—I am not speaking authoritatively, it is only a matter of opinion—that the officers would get that business on a self-supporting basis before the company went much farther afield.

Q.—That is to say that the policy now you think should be to develop the business in the places where it has started and with the staff it now has? A.—Yes.

Q.—And taking it in that way, you think the time when the business would be self-supporting would be reached much sooner than if they continued to expand as they have been doing? A.—Oh, yes, undoubtedly. I would like in addition to that to say that the company could at any time it chose to do so, by being satisfied with a smaller increase, so curtail its expenditure as to bring it within the premium income. It could do so at any time if it chose, and stop these contributions from the stockholder.

Q.—You are speaking now with direct reference to the Union Life? A.—Yes.

Q.—You say it could by drawing the line where the business is now, and not trying to reach out too far, make itself self-supporting? A.—Yes, by concentrating it, by employing one agent to collect a business that under existing conditions may take five agents, because they are seeking for new business in addition. But if they did that it would be a very small affair, and it would be a great pity to

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curtail the operations of the company in that way.

Q.—It would remain then a small company? A.—Yes.

Q.—That has not been the policy the company has pursued? A.—Decidedly not.

Q.—It has been pursuing a policy of rapid expansion? A.—Yes, up to a certain point.

Q.—And that has required large contributions to carry on the business? A.—Yes, and I think that whatever the length of time may be until the company will become self-supporting, that these contributions from the stockholders will gradually grow less.

Q.—You do not seem to be giving me any mark for weekly debit; what should the weekly debit of the company be? I suppose it must have a certain weekly debit before it is self-supporting even if it does not branch out?

MR. LANGMUIR: You mean the aggregate debit of all the agents?

MR. TILLEY: Yes, for the whole company. What is the present debit? A.—It is about \$4,200 a week, taking in the ordinary branch.

Q.—Take the industrial insurance, and what is it? A.—\$3,600 odd.

Q.—I will put in a statement supplied by the company, showing its weekly debit from time to time. (Exhibit 118.) At the present time you say it amounts to what? A.—About \$3,600. Rather more. The industrial debit.

Q.—Now is that debit sufficient to carry on the business? A.—It could be made sufficient, at the cost of the company always remaining a very small company indeed.

Q.—Not at all the company that the Directors of the company, so far as you know their ideas, have in mind? A.—Certainly not.

Q.—And what debit would you say would be more in accord with what the company has had in mind, according to your knowledge of their opinions? A.—Well, the idea of the officers is to make the Union Life Insurance Company the greatest industrial insurance company in this country.

Q.—What does that involve of weekly debit, \$10,000? A.—Oh, it would not be said that ten or twenty thousand dollars, as far as that goes, the Metropolitan is \$20,000, and if the Union Life is to become a greater company than the Metropolitan it fol-

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lows that it must get a greater debit than \$20,000.

Q.—While that debit is being accumulated it means that money must be paid into the company to keep it running, by some person? A.—Not necessarily, until it reaches a debit of \$20,000, because the company becomes self-supporting.

Q.—After a certain time? A.—Yes.

Q.—Where in the progress of this company, carrying out the policy that is laid down, is it going to cease calling for contributions from the public? A.—I could not mention any specified time; all I can say is that it will be some time to come before they would reach that point, some years.

Q.—Some years before they would reach the point where they would stop calling upon shareholders for further money? A.—Yes.

Q.—Because we have seen that the contributions by shareholders by way of premium on stock has been increasing lately, but that you say is accounted for? A.—Yes, well, it would go down, it would become smaller.

Q.—But it would continue for some years to come? A.—Undoubtedly.

Q.—That I suppose, Mr. Harvey, is something that persons commencing industrial business would know and anticipate, this large expenditure of money? A.—Certainly, it was known in the case of the Colonial Life Insurance Company, and the stockholders were told before they put up a single cent that it would be many years before they got any return for their money.

Q.—Then I suppose it is proper to say that in a properly conducted company that no returns should be made to shareholders for some years in carrying on industrial business, all the money the company can get is required? A.—It certainly is.

Q.—It is not a case, is it, for the payment of dividends in the early life of an industrial company if it needs all this money you speak of? A.—Not when the capital has been subscribed in the usual way. A dividend would not be allowed by law.

Q.—When the capital is subscribed in the usual way a dividend would not be allowed at all? A.—I want to be perfectly fair on that matter. As a matter of fact I don't think that the Union could have started if it had not had some system such as that under discussion now, of paying something back to the stockholders. I don't think the stockholders in this country would

have put up the money as they have done in Jersey City.

Q.—Then I understand you to state that some such method of raising the money as the Union Life Company has adopted is necessary here? A.—I think so.

Q.—In the case of the Colonial it was different, because the shareholders all understood in advance just what it would involve? A.—Yes, they were told; and then again the shareholders of the Colonial are very rich people indeed, many of them multi-millionaires, and this money they are putting up is nothing to them at all.

Q.—That is a happy state. A.—Well, it is so. It is true, nevertheless.

MR. KENT: I would like at this point to ask the witness if there really was no inducement offered to these shareholders of the Colonial Company to put their money—you may say to bury it. I cannot imagine that any man, whether he is a millionaire or not, would invest his money with the certainty that he was never going to see it again.

MR. TILLEY: If your honor will allow me, I will come to that now, as the matter is raised. Where is the inducement to a shareholder to put his money in an industrial insurance business? A.—The inducement is the belief that sometime in the future it will be a very remunerative investment.

Q.—When you say sometime in the future, you mean after this period of years you have been speaking of? A.—Yes.

Q.—After that has all gone by? A.—Yes.

Q.—And the company has developed a large weekly debit? A.—Yes, and a large reserve fund, because that plays a very important part in the future profits of the company.

Q.—That, then, there is the chance for the shareholders to have a profitable investment? A.—Most assuredly.

Q.—Even having regard to all the money they have paid out to establish the business? A.—Yes.

Q.—And the lack of dividends? A.—Yes.

Q.—Now has that been borne out in actual experience? A.—It will be borne out in the case of the Jersey City Company.

Q.—You mean the Colonial? A.—Yes.

Q.—I would rather take some experience if you can give it. Has it been borne out in any case to date?

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A.—I don't quite understand what you mean by any case to date.

Q.—You spoke of the Prudential as a company that you were associated with for some twenty years in England? A.—Yes.

Q.—And that was a good many years ago, so it has been in existence for many years? A.—The Prudential of London is about 58 years old.

Q.—Then take the case of such a company as that, rather than the case of the Colonial, which, while you may believe it will be profitable, has not yet proven it, I suppose, it has not got past that period of paying in money, has it, the Colonial? A.—No.

Q.—Then take the Prudential, and what can you say about it, has it demonstrated that the business is profitable? A.—The London Prudential?

Q.—Yes. A.—Enormously so. They are paying enormous dividends to their stockholders.

Q.—That is one of the oldest I suppose? A.—About the first.

Q.—And take the case of the Metropolitan? A.—They have paid enormous dividends to their stockholders, although they are limited by law to a dividend of 7 per cent. of their capital, their paid-up capital is \$2,000,000, and so they only pay \$140,000 by way of dividends.

Q.—Then that would involve the balance going in reduction of premiums? A.—That \$2,000,000 was paid out of the profits, the capital was paid up out of the profits, by special Act of the New York Legislature, the company had the privilege of adding \$1,500,000 to its capital out of the profits.

Q.—Then take the Prudential of New Jersey? A.—They pay 10 per cent. dividends.

Q.—How long have they been in existence? A.—About 27 years I suppose.

Q.—From what you say, if that is a fair statement of experience, and I suppose you believe it to be? A.—As a matter of fact the stockholders of the Prudential of Newark paid in hardly any capital at all. If I were to say that the total contributions to capital of the Prudential of Newark were seventy-five or eighty thousand dollars I think I should be well within the mark.

Q.—These are cases that indicate in a general way that the business can be made profitable? A.—Yes. I want to say also that the condition of affairs now is different from what it

was at the time these companies were started.

Q.—What would you say about that?

A.—It is more difficult to get business and it costs a good deal more.

MR. McLAUGHLIN: With the Prudential there is a million pounds of capital. I would like to get the figures accurately.

MR. TILLEY: It is not necessary to get the figures. What do you say? A.—The conditions to-day are harder than when these companies were started.

Q.—In what respect? A.—It is more difficult to get business, and it costs a great deal more to get it. In those days there was no competition, and moreover the people were not insured, whereas now they are insured.

Q.—Do you think in view of the changed conditions that it is still possible to make an industrial insurance company profitable after the expenditure of a sufficient amount of capital and the seeing to the proper application of that money? A.—Yes, I think an industrial company would pay a fairly remunerative rate to its stockholders in the future, but not yet.

Q.—Then that is the reason that would prompt persons to take an interest in it? A.—I presume so.

Q.—But in the case of the Colonial the shareholders were well able to put up the money and knew what was involved? A.—Yes.

Q.—I suppose that without that knowledge on their part, and the ability to back up the conviction that they had, that there would be a great deal of trouble and worry about getting such a company properly on its feet? A.—Undoubtedly.

Q.—A work that you probably would not like to undertake? A.—I would not.

Q.—And it is for that reason I suppose that you say it is necessary here to start the business by some such means as adopted in this case? A.—That is my belief.

Q.—Now will you tell me what you consider to be the advantage of commencing business as it has been commenced here for that purpose? A.—Well, the whole question is vital. If some such system as that in use by the Union and National Agency had not been in existence, the Union Life Insurance Company would not have been in existence either.

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Q.—Do you mean that if the persons that were called upon to put up their money knew exactly what was involved in the way of delay, that they would not go into it? A.—I couldn't say.

Q.—That it would be very hard to get them to go into it? A.—I think that if people were told that it would be many years before they would get a cent of their money back, and that during all those years they would be called upon for further contributions, that it would have been impossible to have raised the capital necessary.

Q.—I suppose that as a fact the dividend that has been paid back to these shareholders has just increased the amount that the company has had to raise from some person else or from them? A.—Oh, of course.

Q.—That has just increased the amount they have had to pay, so that the shareholders in this case have been paying in their money to get back their dividend, it was not earnings in the strict sense of the word, it was not profit? A.—Not earnings as regards the Union Life, but as regards the National Agency, that is another matter altogether, and I am not familiar with the workings of the National Agency.

Q.—You are a Director of the Union Life? A.—I have been for a very short time, and I live in New York, and do not see much of the Union Life.

Q.—But you I think should give us your view on these matters. That is self-evident at any rate is it not, that this payment of dividends to National Agency shareholders has of necessity been one of the means adopted in order to keep them satisfied, otherwise they would not be willing to go into such a venture? A.—I would say there is not the least doubt about it.

Q.—Then do you think that that is quite the right way to raise money by not letting the people, or I will not put it that way, the result of that would indicate that the persons putting up the money did not quite understand what they were paying their money for? A.—I couldn't say whether they understood or no. I really know nothing about the matter.

Q.—Does not that follow? It would leave the door open at any rate for agents attempting to sell stock to rather mislead the person putting up the money? A.—I wish to say that

at the time I was approached by Mr. Symons and Mr. Evans, to become a Director of this company, I mentioned the National Agency Company and wished to know what connection it had with the Union Life. It was explained to me in a very fair way, and the statement was further made that there was nothing sub rosa about the arrangement, and that the agreement was on file at Ottawa and could be seen by anyone who was interested in the subject. That is the statement made to me. If it is not true of course I have been deceived, but I believe it is true.

Q.—I do not want you to misunderstand me, Mr. Harvey; I am not at all questioning that. I am not suggesting anything different from that at the present time, but whatever the possibility of investigation might be on behalf of the shareholders, does not the fact remain that this payment of dividend would tend to mislead as to what the real transaction was? A.—I think, Mr. Tilley, in answering that question consideration must be given to whether the capital put in by these stockholders is fully secured or not, whether it is safe, because if it is fully secured, then surely—

Q.—No, surely there is a further duty than that, Mr. Harvey; besides holding your money safe for you, if you are one of the shareholders you are entitled to know and appreciate just what the transaction is that you are entering into. Isn't that so? It is for you to say whether it is safe and not for the person taking the money? A.—I am unable to say what took place between the stockholders and Directors of the National Agency.

Q.—I am not dealing with that for the moment; I am dealing with just the general plan of the whole thing, and taking the one thing that stands out plainly, and that is that persons were putting in their money and they were being paid dividends at a time when I think you have said that that meant simply that the company must get that much more money in order to pay those dividends? A.—It comes to the same thing undoubtedly.

Q.—With that feature of it standing out so plainly, is it not obvious that the shareholders who would be putting up this money would be doing it without quite understanding the whole nature of the transaction, otherwise they would know these were not

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dividends at all? A.—I don't know about that, because you must take into consideration the question as to the safety of the investment they have made.

Q.—No, it is not for some person else to make the investment for the shareholders, it is for the shareholders is it not to understand fully the transaction they are entering into? A.—As I understand the question the investment was made with the Union Life Insurance Company, and they pay to the National Agency Company a certain dividend for the use of that money, and the stockholders of the National Agency Company get that dividend or a part of it.

Q.—I am not saying that the arrangement was not quite correct. I am simply asking you if, with your knowledge of what it involves to start a life company, whether these persons who were putting up all this money to start this life company could have known exactly what they were putting their money into? A.—Well, possibly they did not, but that would apply to any other investment.

Q.—Have you not gone this far, that if they did know exactly what was involved they would not have done it? A.—That does not follow at all, because you must take into consideration the security part. Now the point is, is that money put in by the National Agency Company safe.

Q.—Then if that is the case why would it be impossible to start an insurance company without the aid of the National Agency Company as you have said it is impossible to do? A.—Because the people would not put in their money.

Q.—Why not? A.—Because they get no return for it.

Q.—Then you admit that in order to get this money from the people it is necessary to show them a return as they go along? A.—Yes, I think so.

Q.—Then if they enter into that transaction does that show a clear appreciation of the transaction by the persons who are putting up the money? A.—I couldn't say. I suppose some people are more intelligent than others.

Q.—It would take a fairly intelligent person to work that out would it not? A.—I suppose it would.

Q.—And it would afford a splendid opportunity for an agent to rather mislead a person putting up his money, by telling him he would get 10 per cent? A.—I don't know whether

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you are justified in suggesting that. This matter was thoroughly threshed out at the meeting of the National Agency Company. You have a copy of all the proceedings, and I think it was thoroughly understood by those people who were present at that meeting.

Q.—A person does not understand a thing very well if he is present by proxy? A.—I cannot testify to the general intellectuality of the Canadian people or any other people.

Q.—You go this far, that it would be impossible to raise the money by persons paying in directly, that is this kind of insurance business? A.—Yes, and not only here but anywhere else, with the one exception of the Colonial.

Q.—With the exception of persons who are wealthy enough and broad-minded enough to be satisfied with a dividend some years hence? A.—Yes.

Q.—I suppose it is no use to try to get you to a weekly debit? A.—No, I should not be justified. I answered that question in a general way in saying that it will be some years to come before the company will be self supporting.

Q.—How would you value the present worth of a company's weekly debit? A.—By multiplying it by a certain number of times.

Q.—And I suppose that the number of times you use to multiply will depend on the circumstances of the particular company? A.—Most assuredly.

Q.—What would you say was a maximum number of times to multiply under the most favorable circumstances? A.—Well, for a comparatively new company?

Q.—Yes. A.—If the company was an old one it would be quite a different thing, but a company such as the Union Life.

Q.—Four or five years in existence? A.—I think a conservative number of times in the case of the Union Life would be 125 times.

Q.—Is that your minimum? A.—Yes.

Q.—What would be your maximum? A.—Well, it might run up to 150 times even, if a company was anxious to get rid of the Union in addition to securing its business it would probably pay a great deal more than it would otherwise do.

Q.—You suggest that if conditions were such that some company realized

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the necessity of getting rid of the Union it might go up to 150? A.—Yes.

Q.—That would be about the limit?

A.—Yes. I say it might go up. I don't say it would, but it would not go below 125 times most assuredly.

Q.—If it realized the prime importance of getting rid of them, it would be somewhere between 125 and 150 times? A.—Yes.

Q.—Then how low might it go if the Union Life was the company that realized the necessity of being got rid of? A.—Well, if they were compelled to sell they would get nothing out of it, the other company would simply take their business as they have done in other cases.

Q.—That has been done has it? A.—Oh yes.

Q.—In the case of what companies?

A.—The Lower Canadian, a Montreal company I think was served that way. The Peoples of Norwich, Connecticut. That is two and there may be others.

Q.—They had to sell or did sell? A.

—The Directors sold. The Directors had the power to sell and they did sell.

Q.—I suppose that would be the case where the company selling would realize the importance of closing the transaction rather than the company purchasing? A.—I think in the case of the Lower Canadian, I can only speak on general belief. I don't know whether that is admissible?

Q.—Yes. A.—I believe in the case of the Lower Canadian that the Directors were got at—if you understand what I mean—by the purchasing company, and that the stockholder suffered accordingly. That is the idea generally prevalent with regard to that company, and I know from positive knowledge that it was so in the case of the Peoples of Norwich, Connecticut. That sold out 15 years ago, 12 or 13 years ago.

Q.—You mean some improper relations existed between the purchasing company and the Directors? A.—Yes, I think that the stockholders, certainly in the case of the Peoples, were swindled, to use a strong word. They were not dealt fairly with.

Q.—They were not dealt fairly with, apparently that is a better way to put it? A.—Yes.

Q.—If a company had difficulty in raising its surplus money that must from time to time be paid in, what would be the value of its asset then in this weekly debit? A.—I don't quite understand the question.

Q.—You have spoken about the difficulty of raising from people in small amounts the money necessary to properly initiate this sort of business? A.—Yes.

Q.—And I suppose that difficulty at times would get very critical when the financial condition would be bad and probably a little bad advertising from an opposition company, it might get very hard? A.—It easily might.

Q.—Then I suppose if a company was in that condition, the value of its debit would be considerably lessened if it had not the millionaires behind it that you speak of, ready to put up the money on call? A.—I don't think it would be worth quite so much, but you must bear in mind the company would always have the means of protecting itself by curtailing its expenditure, and keeping within its premium income. They might elect to do that in preference to selling their business at an unremunerative rate to another company. There is a saving clause to it.

Q.—You are speaking now of what you were referring to some time ago, of the possibility of the Union curtailing its business at the present time. A.—I say it could do so.

Q.—Could it put up the reserve? A.—I think so.

Q.—And pay all claims? A.—I think so.

Q.—Without calling on shareholders? A.—I think so. Of course it would have to practice rigid economy, but I think it could be done, and there is an instance on record of where it has been done in the case of the London Life of London, Ont. There they have been doing it right from the start, and when their premium income is no greater than the premium income of the Union to-day so what can be done in one case I argue can be done in another, and they are parallel cases because they are both conducting the same sort of business.

Q.—You say in valuing the Union Life you might say 125 times. I see that in the minutes of the 5th annual report issued by the National Agency Company this paragraph appears; this is Mr. Evans speaking at the time: "In support of this, I have before me the figures of the Colonial Life Insurance Company of New Jersey, which is regarded as the most successful among the newer industrial insurance companies in the United States." That is the company you

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referred to, of which you are the actuary? A.—Yes.

Q.—“The Colonial commenced business in 1898, and in the first four years there was invested in the business, in addition to the premium income, approximately \$600,000, and the expenditures during the same time, exclusive of claims, amounted to \$760,000, and the business on the books amounted to \$6,181,000. Comparing this with the figures of the Union Life, where \$525,000 was invested in addition to the premium income, and where the total expenditure was less than \$640,000, and the business in force is \$7,161,000, it will be seen that the results obtained by the Union Life show that the business has been secured at a reasonable cost.” Were these figures as to the Colonial Life obtained from you? A.—No sir, he must have got them from the State returns.

Q.—Can you say whether they are correct? A.—I should say they were. I have no reason to doubt them. They could easily be verified by taking the State reports.

Q.—Taking the case of that company, what is its monthly debit cost? A.—100 times. I made a calculation last night. I took the claims, expenses and reserve, added them together and subtracted the premiums, and then I divided the remainder by the weekly debit, and I found it came out just about 100 times in the case of the Colonial and in the case of the Union Life they are very much on a par. While there is this 10 per cent. dragging on the Union Life, and it is a drag, yet they say that 10 per cent. in the claims in the lower death rate. In other words if the Union did not give this 10 per cent. of its premiums to the National Agency and if it experienced a death rate equal to that of the American company, its position would be exactly the same financially.

Q.—I suppose in the figures you have given me you have not taken into account what it cost the North American Life Company to build up the first \$800 of weekly debit? A.—I don't know what it cost them.

Q.—Then you say the loss of 10 per cent. by the Union Life is compensated to a great extent by the gain of 10 per cent. on the death rate? A.—It is exactly compensated. I take the Colonial Life Insurance Company, because they have a lower death

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rate than any other industrial company, and if you were to take another industrial company it would be more than compensated.

Q.—Then does not one-half of that gain from the death rate disappear in the contract the Union Life Company has with Mr. Evans? A.—I don't know anything about that contract.

Q.—Has it not come before you as a Director? A.—No.

Q.—I will read that contract now, because we will have to put it in. It is an agreement made in duplicate on the 11th of June, 1904, between the life company and Mr. Evans, and recites that the Directors are empowered to appoint a general manager either for a fixed term or otherwise and to fix and determine his remuneration, which may be by way of salary or otherwise. Then the agreement has the following provisions: “1. The said Evans shall be General Manager of the company for the term of six years commencing the first day of June, 1904.

There shall be paid by the company to the said Evans as such General Manager as aforesaid a salary of \$450 per month and in addition thereto a commission of five per cent. on the net premium receipts of the company in excess of all expenses of the company including any commissions payable to the National Agency Company Limited. Such salary to be payable from the commencement of the term aforesaid, and commission to be payable from January 1st, 1906. The amount of such commission payable shall be determined as the accounts may appear at December 31st of each year thereafter and approximate payments may be made on account monthly during the currency of the year.

The said Evans shall unless prevented by ill-health during the said term devote the whole of his time, attention and abilities to the business of the company and shall follow the instructions from time to time of the Board of Directors and of the Executive Committee of the company and in all respects conform to and comply with the directions and regulations made by them and shall well and faithfully serve the company to the best of his ability and use the utmost of his endeavors to promote the interests thereof.”

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Then paragraph 4 provides that the said Evans shall be entitled to a leave of absence for 6 weeks in each year.

Then paragraph 5 provides that unless 6 months' notice in writing is given by either party the agreement shall at the expiration of the aforesaid term of six years to be deemed to be continued from year to year and on the same terms and conditions as stated therein? A.—Will you kindly tell me what that 5 per cent. is based on?

Q.—I was going to hand you the agreement and have you say whether it does away with half of the 10 per cent. or not. You will be able to tell me that.

MR. McLAUGHLIN: The net premiums over and above all the expenses—that condition will not be reached in six years.

A.—It seems to me off-hand that there is nothing at all due under that contract.

MR. TILLEY: You say that the 5 per cent. is computed on the premium income less the expenses? A.—5 per cent. of the net premium receipts of the company in excess of all expenses of the company including the commission to the National Agency. The construction of that agreement should be handed to a lawyer and not to an actuary.

Q.—Oh no, I think you would make a better construction of it than a lawyer would. (The agreement is filed as Exhibit 119.) Then if the Colonial cost 100 times the weekly debit and the Union is about on a par with it, why do you say 125? A.—Because I think a purchasing company would pay that. Why should it pay only 100 times? Here have I, for instance, been working for years and years say for the Union Life as its General Manager—all the worry and anxiety and there has been plenty of that, there must be moments of pessimism as well as optimism, and someone comes along who knows all about the business and he says, "I will save myself all this terrible worry and anxiety and all these years of labor, it has cost these people 100 times and I will just give them what it has cost and take all the years of labor and worry and anxiety, make them a present of that. Now they have got to pay for that. It would be only reasonable.

Q.—They usually pay the General Manager for that. Doesn't he go through the process of reasoning you have gone through and then give the company the cost and take the profit?

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A.—You will allow me to say this, the agreement you have spoken of relative to Mr. Evans receiving \$450 a month, it may be as much as the company can afford to pay, but it is not enough for what he undergoes.

Q.—Do not let us get back to that?

A.—It is connected with the question you have in hand now.

Q.—The company has no worry or stress of mind that you are speaking of; Mr. Evans may have it, but the company would not be getting a profit on his stress and worry? A.—Then you think a company has to come along and pay the exact cost of that business and get in one clip what it has taken years for the other company to accomplish?

Q.—No, I say that all depends on the circumstances and on the desire of the new company to buy? A.—Yes.

Q.—The importance of getting rid of the old company? A.—Yes.

Q.—And to some extent on the difficulty of the old company in getting new money to carry on the business? A.—Yes.

Q.—All that enters into it? A.—Certainly.

Q.—Then are there any conditions that exist in the case of the Union Life, having regard to its experience in getting money, that would warrant the putting on of a premium of 25 times over and above the actual cost? A.—I take it a thing is worth what it will fetch, and I believe the business of the Union Life will fetch half a million dollars, that is 4,000 times 125. I believe it could sell its business to-morrow for that amount if it wished to do so. As a minimum sum I quote that.

Q.—You think that is a price that could be realized at the present time? A.—I do.

Q.—From some particular company? A.—Yes.

Q.—Then is that the basis on which you reach the 125 times, because you think there is some company that would buy this one? A.—Yes, and not only that; I took the opinion of several well-informed insurance men in New York as to the value of this business and they all said from 125 to 130 times as the minimum.

Q.—That is to a company that would buy? A.—No, to this particular company.

Q.—I suppose they would not be as well able to speak as you would, per-

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sons in New York? A.—Oh I think so.

Q.—Would they understand the condition of this company? A.—I think so, yes, because it is all published here in the pocket index of the Spectator Company.

Q.—Then this address that was given at the annual meeting, at pages 15 and 16, is correct when it says that your opinion was that it should be worth from 125 to 130 times the weekly debit? A.—Yes, I wrote a letter to that effect and that is a verbatim copy of it to the best of my belief.

Q.—“Since our interview I have made careful inquiry.” That would be the interview you spoke of? A.—What is the date of that letter?

Q.—This would be February 20th, 1906. A.—Yes, I fancy the Directors meeting of the Union Life must have been just after that. I was up here and attended that meeting and it must be the interview referred to in that letter.

Q.—At that meeting the question came up of the value that could be placed on the asset of the Union Life stock in the National Agency Company balance sheet? A.—Yes, just in a perfunctory kind of way.

Q.—Perfunctory so far as you were concerned, but a serious matter to the other parties? A.—It was put in this way by Mr. Symons; he said “I think the time has come, Mr. Harvey, when we should place some value on the Union business in the accounts of the National Agency. I would like you to go into that matter and let us know about what it is worth.” And I think I said off-hand that it was worth somewhere about 125 times but I would consult some people in New York about that and learn their views and advise him of the result, and that is the result contained in that letter, and I honestly believe that that business is worth half a million dollars and that it could get that in hard cash and in addition there would be the \$100,000 of unimpaired capital, so it means \$600,000.

Q.—Of course if the unimpaired capital is there? A.—Oh, it is there.

Q.—That probably is a matter that falls to be discussed. Then I produce one of the returns sent in by the Union Life to the Commission headed “Policies, Industrial Branch.” Did you prepare this or were you consulted about it? A.—I did not prepare it and I have not been consulted.

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This is the first time I have seen it although I have some figures here they gave me. They may be rather similar but they don't appear to be in that form. These are Union figures. Number of policies in force December 31st, number issued and showing how many were in force at the end of each year.

Q.—This is just for the year 1905. Lapses in 1905 of the issue of 1905, and it says 12,368 policies lapsed in 1905 of the issue of 1905. Premiums collected on the above \$33,470. Average number of weeks premium paid 8.10. Cost per policy to the company 4.18. That is \$4.18 1-10 cents? A.—Yes.

Q.—Per policy? A.—Yes.

Q.—And the amount of premium paid on each policy would be 73 6-10 cents? A.—Yes.

Q.—There are 12,368 policies and the premiums collected are \$33,470? A.—Then that must be wrong I should think. This is the first time I have seen that.

Q.—The item here is amount of premiums paid on each policy 73 6-10, whereas it would be according to that 2.5.

MR. McLAUGHLIN: Either Mr. Evans or Mr. Carrie could correct that.

MR. EVANS: That is the cost Mr. Tilley.

MR. TILLEY: This is said to be the amount of premiums on each policy, how does that work out?

MR. EVANS: These are the premiums collected on the entire issue of 1905.

Q.—The \$33,470 is the entire premium income on the whole of the 1905 business?

MR. EVANS: Yes.

Q.—And 73 6/10 is what? A.—The premiums that were collected on the business that lapsed.

Q.—Per policy?

MR. EVANS: Yes.

Q.—Then that is not quite the way it is worded here.

MR. EVANS: Just a moment and I will make quite sure of that.

MR. HARVEY: It means on the whole of the 1905 business.

MR. EVANS: 73.6 is the amount paid on each policy lapsed of the issue of 1905.

Q.—This says “Premium collected on the above” which would mean the lapsed policies.

MR. EVANS: That is a mistake sir. That is the premium of 1905, in 1905, collected on the issue of 1905.

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Q.—Is this the total premium collected?

MR. EVANS: Yes, on the issue of 1905.

Q.—This will be Exhibit 120, and Mr. Evans now states that the item reading "Premiums collected on above \$33,470" should read, "Premiums collected during 1905 on all policies issued in 1905." That is what you say Mr. Evans?

MR. EVANS: Yes sir, that is right.

Q.—Then this is the form of the Savings Bank policy you were speaking of Mr. Harvey? A.—Yes sir.

Q.—This will be Exhibit Number 121. Point out what are the distinguishing features of that policy as compared with policies issued by other industrial companies? A.—The leading feature is the savings bank feature which provides for a return of half the premiums paid by the insured at the end of 20½ years on the average or you may call it 20 years if you like.

Q.—That is the policy reads that it will be paid at 20 years from the next birthday? A.—Yes, succeeding the date of the policy.

Q.—And you believe that on the average the parties insure midway in the year, of their life? A.—Yes.

Q.—So that on an average, the half year yet to accrue before the birthday would be reached and then 20 years from that date would make it 20½ years? A.—Yes. The sum insured granted under this policy is the same as that granted under an ordinary life policy. They have here and in the States a standard table of rates for whole life policies. It is used by the Metropolitan where it issues a whole life policy, by the Prudential of Newark, by the Colonial of Jersey City, and by the Union Life in its savings bank policy.

Q.—Are there any other features of it? A.—The paid up policy is quite a feature. After three years the company will give a paid-up policy of one-third of the premiums that have been paid under the policy, and that one-third of the premiums will mature on the same date as the original policy. So that if a person discontinued under 10 years he would get one-third of the premiums back at the end of a further period of 10 years, and in addition he would be protected to that extent in the event of death.

Q.—Examine this clause: "The insured may exchange this contract for

a whole life policy at the same premium and for the amount of this policy, in which event the agreement to pay one-half of all premiums paid on this policy shall not apply." That is there is a privilege given in this policy to the assured of taking one-half of all the premium paid? A.—Yes.

Q.—But if he exchanges it for a whole life policy then he waives that privilege does he, completely? A.—Completely.

Q.—There is no similar clause put in his new policy? A.—But he has the further privilege of taking half those premiums and then taking out another policy at his attained age, and he can do that as many times as he likes at the end of each twenty years.

Q.—But if he exchanges it for a whole life policy, this privilege is released? A.—It does not apply.

Q.—I suppose that these special features of the policy are beneficial in your opinion to the insured, and make it a better policy for him than policies of other companies? A.—Any other policy extant.

Q.—If that is so does it involve the keeping of a higher reserve by this company for that policy? A.—Very much higher. I have prepared a table here showing what the reserves under the two forms of insurance are, and I shall be very happy to hand it in as evidence if you like to accept it.

Q.—We will take it, subject to correction, Mr. Harvey. This is a computation showing the reserve as calculated? A.—On the Savings Bank policy and as it would be calculated under the corresponding whole life policy. (Exhibit 122.)

Q.—Has this been prepared by you? A.—Yes.

Q.—And you can vouch for its accuracy? A.—Yes.

Q.—And you can vouch for its accuracy? A.—Yes. It also contains an exhibit at age 30 of the effect of giving one-third of the premiums as a paid-up policy and it shows how much of the reserve under the savings bank policy is absorbed by that paid-up policy. There is one other table I would like, while on this subject, to hand in. It shows the marginal loading available under this savings bank policy, and it is handed in as proof that notwithstanding the policy is a very liberal one, that there is sufficient loading there to make the trans-

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action a reasonably profitable one to the company.

Q.—You have prepared this yourself have you? A.—Yes. (Filed as part of exhibit 123.)

Q.—We have a return sent in showing the valuation for reserve by the Union Life Insurance Company. It is headed 1905, and is marked savings bank policies. In the year 1906 there is no reserve. Why is that? A.—There would be no computation. I don't know why they put that in.

Q.—I suppose they have put 1906 in to show the amount of insurance that they have written during 1906, but there would be no reserve on it.

MR. McLAUGHLIN: There is no computation this year I suppose.

MR. TILLEY: That is what he has said. How is it that in 1905, if the reserve on these policies is larger than under ordinary policies that the reserve on \$3,285,828.20 is only \$945? A.—That is owing to the age next birthday being charged.

Q.—Do not give your reason for that too rapidly, because we may not be able to follow you. What were you going to say about it? A.—That the policies being issued in the average on the 1st of July of each year, and the insured being half a year younger than the age charged, it follows that on the 31st of December the insured only just reaches the age next birthday that is charged in the premium.

Q.—You say that when a man, or probably we had better say a child, is insured, the age at next birthday is taken as the age at which the premium is computed? A.—Yes, a child or an adult either.

Q.—That applies in industrial or ordinary insurance? A.—It does in this country.

Q.—You always take the age at next birthday? A.—Yes.

Q.—And you told us sometime ago that in industrial business you believe, and you have verified that from experience, that the insured is on the average just midway in that year of his life? A.—Yes.

Q.—So that on the average there is six months to run before the insured comes to the age that he has been required to pay a premium for? A.—Yes.

Q.—That is to say if he is paying a premium on 30 years of age he is on the average 29 years and a half old? A.—Yes.

Q.—So that he is insured at 29½ on a premium for 30? A.—Yes.

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Q.—And in the same way the policies on the average are written on the 1st of July in each year? A.—Yes.

Q.—So that the insured would have from the 1st of July to the end of that year to run before he would come to the age at which he is taken for insurance purposes? A.—Yes.

Q.—Then that gives him practically six months? A.—Yes.

Q.—All but a fraction I think does it not? A.—Yes.

Q.—On the basis of the end of the year coming probably in the middle of the week on the average? A.—Yes.

Q.—It practically amounts to giving the insurance company the benefit of six months on this reserve in the way you figure it out? A.—Yes.

Q.—You say that because the insured does not come to the age at which he is insured, or taken for insurance purposes, for six months, that that first six months need not be considered in computing the reserve? A.—Yes.

Q.—Then the company gets the first six months of insurance on the man's life without being required under this system to put up any reserve for him? A.—Yes.

Q.—Do you know whether that has been accepted by the Insurance Department at Ottawa? A.—I couldn't say. I don't think the question has arisen, because Mr. Blackadar has not yet made a valuation of the Union business. I believe this is about the time when he is expected under the law.

Q.—Under the Act it must be made every five years, the valuation of the policies? A.—Yes.

Q.—And this company has not reached the age where its policies should be valued? A.—Yes.

Q.—So that that question has not yet arisen, but in the meantime this company is computing its reserve on that basis? A.—Yes.

Q.—Of not allowing any reserve for the first six months of the policy practically? A.—Yes.

Q.—Not computing any reserve for the year in which the policies are issued? A.—Yes.

Q.—Would that same argument apply in the case of ordinary insurance, so that no reserve could be asked for the year in which the policy is written? A.—It would, but for one thing the selection made by the insured in the matter of age. When under or-

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dinary policies. If you go to a man and solicit him for say \$5,000 of insurance, and tell him he is not to pay the premium for his age, but for his age at his next birthday, in the majority of cases if he is some way off that birthday he will tell you to call again when he is nearer the age you are going to charge him for. In that way he makes a selection against the company, but there is no selection of that kind under industrial policies, and as you say it has been proved, it has been actually verified by the applications.

Q.—That is by taking a lot of applications and figuring out when the application is sent in in the case of industrial business it has been established that the applicant does not pay any attention to whether he is near his next birthday or some distance removed from it? A.—Yes.

Q.—And that on the average they have half a year to run before they attain the birthday which is being used for insurance purposes? A.—Precisely.

Q.—And has any test been made of that kind in the case of ordinary insurance companies? A.—Yes, tests have been made; the selection made by the insured in this matter has been frequently commented on, at the Institute of Actuaries in London, and on other occasions, and it is an admitted fact that there is a selection exercised by the insured in the matter of age, and I perhaps may be allowed to add that in my opinion, in the States, where they charge the nearest age, by reason of this selection they are really charging a premium too small, because the insured owing to this selection, where the nearest birthday is charged is really a little older than the age he is insured.

Q.—In the States they take the nearest birthday? A.—Yes.

Q.—And you say that by reason of the substantial premium that is payable on the taking up of a policy that the applicant considers what stage of the year it is advisable for him to take out his insurance? A.—Yes.

Q.—And he is always discriminating as far as he can against the company? A.—Yes. Were it not for that, this system of valuation would apply equally in the case of an ordinary policy. In your opinion a distinction should be made between industrial and ordinary insurance in the computation of the first year's reserve? A.—Yes,

it comes out mathematically that way.

Q.—You have never discussed that with the Insurance Department at Ottawa? A.—No, but it has been discussed with the Insurance Department in the States and passed by them.

Q.—I am not questioning that it is a matter that has been considered, but I was endeavoring to find out what if any view had been taken of that contention by the Department at Ottawa. You know of none? A.—None at all.

Q.—At what rate is that reserve computed A.— $3\frac{1}{2}$ per cent. by the Institute of Actuaries, H.M. table.

Q.—Can you say how the death rate experienced by Industrial Companies compares with the H.M. table? A.—I should imagine in the case of the Union that the experience would not be greater. The mortality experience would not be greater in the case of the Union than the H.M. table. Do you mean that question to apply to industrial insurance companies generally?

Q.—Yes. A.—Oh, the mortality of industrial insurance companies generally is far greater than the Institute of Actuaries table. In fact it is greater at most ages than the general population.

Q.—I am told that there is some mistake as to the basis on which the computation is made for reserve? A.—Oh, the practice of the company has been to value its business by what is termed the H.M. table, and $3\frac{1}{2}$ per cent. interest. This year I am told they wish to make a stronger reserve, and so they added 10 per cent. on the $3\frac{1}{2}$ per cent. reserve so as to bring it up practically to a 3 per cent. reserve.

Q.—That was done in 1905 you say? A.—Yes, it was an idea of the officers that that should be done, and that has increased the reserve by about \$10,000, unnecessarily in my opinion.

Q.—I will put in this document showing the computation of the reserve. (Exhibit 123.) Do you approve of valuing industrial policies by the H.M. table? A.—As a rule, no, but in the case of the Union Life, owing to its small death rate I think it is entirely unobjectionable.

Q.—I am not asking you to approve of or criticize the Union Life, but as a general proposition in valuing industrial business, what would you say in that regard? A.—I would use the general population table in preference.

Q.—You think the general population table should be used rather than

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the H.M.? A.—Yes, that would more nearly represent the mortality of an industrial company than would the H.M. table.

Q.—Probably I had better put in the return that the company has made showing just the way they have valued it, and that will set it out exactly. (Exhibit 124,) Then I am asked to ask you what effect the larger death rate in the earlier years of the insured have on the necessity for a reserve? A.—I think some mortality tables do show a higher rate of mortality, such as the general population tables. As far as English Life table No. 3 is concerned I think the reserve would be somewhat higher, although if often happens that a mortality table showing higher mortality will give a smaller reserve.

Q.—What would the general population table do as compared with the H. M. table in that regard? A.—Well I fancy on the whole it might give a little higher reserve. I don't think there would be very much difference. I don't think in the matter of making a valuation it much matters what table of mortality you use as long as you base your premiums safely; the reserve will differ with different mortality tables, but the difference is not so great as one would think.

Q.—Can you say what system is used in Great Britain as to the computation of reserve on industrial policies? A.—Well, the valuation of policies of any kind in Great Britain is very elastic indeed in its working.

Q.—It is left to the company? A.—Very largely.

Q.—And it publishes the way it values? A.—It has to under the law.

Q.—That is the requirement of the law there? A.—Yes. In Canada and the United States the companies only require to state the amount of reserve. In England they have to show in columns the capitalized value of the sums insured and the capitalized value of the net and gross premiums, and when that is done the company may take a certain proportion of the value of the gross premiums to the reserve, that being future loading to cover future expenses you understand, and then take the difference, the amount that is left, the value of the gross premiums, and deduct it from the value of the sums insured and call that the reserve, and that may be very much smaller than would come out under a net premium valuation. I might also add that if the system of valuation

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that we have here in Canada and the States was applied in its integrity to the British business, half the companies would probably be insolvent because they could not stand the reserve. In other words, the requirements in this country and the States are far more stringent than they are in England.

Q.—This seems to be a return sent in by the company under the heading, "premiums." (Exhibit 125.) Headed "Industrial Savings Bank policy," and it shows how the net premium is reached, does it, and the loading? A.—Here you see the H.M. table not going below the age of ten, it was necessary to tack on some other table for the infantile lives, and I tacked on the English male life table No. 4. It shows the mortality on infantile lives according to the experience of the general population of England, and it is a little better table in my estimation than Fowler's No. 3 table, because it is more recent, and probably more carefully constructed, but it would not matter whether that table No. 4 was used or No. 3 table, the result would be practically the same. Here they have stated the amount that is added to the net premium, whereas I have stated the amount that is taken off the office premium to leave the net premium. That could easily be verified. This is about right.

Q.—That should agree with your statement as to how you computed it? A.—Yes.

Q.—But the result is reached in a different way? A.—As to the loading.

Q.—Then I see by the second sheet of the exhibit that the expenses in 1905 amount to \$219,525 and the loading \$68,721.73. In 1904 the expenses were \$187,920, and the loading \$51,298.10? A.—Yes, those figures are about correct.

Q.—Then will the expenses continue to exceed the loading? A.—For some time to come, but it will gradually be wiped out. For instance if you take the premium and leave the loading out for the moment, take the premium \$13,000 and divide that into that, you will find that we will come out some hundreds per cent. in excess, and here you will find that while there is still an excess it is much lower.

Q.—That is in 1903? A.—Yes. So this is about 15 or 16 per cent. in excess of the premiums, whereas in the first year it was 200 or 300 per cent.

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Q.—If I asked you when the expenses would be as low as the loading, it would only take us back to the old situation would it not? A.—Yes.

Q.—Then we will not venture on that.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

—Resumed at 2 P.M., May 11th, 1906.

—Examination of Mr. Harvey continued:

MR. TILLEY: Q.—We were speaking about the savings bank policy and the company has made a return to the commission in answer to the enquiry sent out describing that policy in their own way, and I think probably we had better put that in as an Exhibit, it bears out about what you said? A.—I have not seen it, I presume it is so.

Q.—I am not asking you to verify it, but simply putting it in as a document received from the company itself. It bears out what you were saying about it, but it keeps it in a convenient place to have it? A.—Yes.

—Memorandum filed as Exhibit 126.

Q.—Do you know the provision in the New York law regarding the use of names as descriptive of policies where some confusion may be caused by the use of a misleading name? A.—No, I do not.

Q.—You are not aware of that; I understand there is a provision against using as a descriptive name for the name of a policy any expression that might be misleading. Do you think the use of the name Savings Bank policy would be a misleading name in any way? A.—I should imagine not.

Q.—You think it would not have the tendency to create the impression in the mind of the person insured that it was in the nature of a savings bank deposit where his money was being credited to him with interest and so on? A.—I should think not.

Q.—Was the name your own as well as the policy? A.—Yes sir, the whole thing was mine.

Q.—And it is rather a taking name? A.—Yes.

Q.—But you think it would not be open to any objection as giving too great an idea of stability and security? A.—I think not, I never heard that any objection has been lodged against it on account of its name.

Q.—This statement I understand is one you have prepared or checked? A.—No, I have not checked it nor I did not prepare it. It was handed me by the Union so that I could quote from it if I were examined as to the lapses during the first year.

Q.—This is a copy of returns in, and subject to any mistake that we may find in it on being examined I will file it as an Exhibit. It is a statement showing the rate at which policies issued by the company have lapsed? A.—Yes.

—Statement showing rate at which policies have lapsed filed as Exhibit 127.

Q.—In 1902 there were only 524 policies issued, that would be because they did not commence issuing them till the end of the year? A.—Yes, and there were no lapses.

Q.—Because they were comparatively just issued? A.—That is why.

Q.—In 1903 there were 169 left; in 1904 122, in 1905 102; that is the lapse rate was, in 1903 30 per cent., in 1904 23 per cent., in 1905 19 per cent? A.—Yes.

Q.—In 1903 the company issued 27,784 policies, 16,525 lapsed during the first year, that is 59 per cent., 6,784 lapsed in 1904, that would be 24 per cent? A.—That is 24 per cent. remaining and 59 per cent. remaining.

Q.—59 per cent. of those policies remained at the end of the first year? A.—Yes.

Q.—That would be 41 per cent lapsed? A.—Yes.

Q.—24 per cent. remained at the end of 1904, and 18 per cent. remained at the end of 1905? A.—Yes.

Q.—The percentages I read for 1902 would be the same? A.—Yes.

Q.—That is the percentage in each case that remained? A.—Yes.

Q.—1904 28,620 policies were issued, and at the end of the year 17,197 remained in force rather than lapsed? A.—Yes.

Q.—Being 60 per cent. 8,438 remained in force in 1905, being 29 per cent. of the policies issued. In 1905 the number issued was 36,659, and of those 23,582 or 64 per cent. remained in force at the end of the year 1905? A.—That is so.

Q.—Taking that statement as correct what do you say to the lapse rate of the Union Life since it has been incorporated? A.—I think it is very low compared with other companies. I anticipated being asked something

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about that, and so I made up a lapse rate from an American company, graduated it somewhat because it will vary a little, and these are my figures, at the end of the first calendar year 50 per cent. were in force, the second calendar year 25 per cent., the third 20 per cent., and you will find those figures closely follow the Union figures later on.

Q.—That is remaining in force? A.—Yes.

Q.—At the end of the first year of the 1903 business it was 59 per cent. that was in force? A.—Yes.

Q.—At the end of 1904, business for that year the percentage that remained in force was 60 per cent., and of 1905 the percentage that remained in force was 64? A.—Yes, those figures are better than these. Take the second year, I have 25 per cent. remaining in force.

Q.—Taking 1903 it is 24 per cent. here? A.—You see it is very close.

Q.—1904, 29 per cent.? A.—Yes.

Q.—And those are the only two years that are extended here; with regard to 1902, what was in reality the second year, because 1902 did not count, 23 per cent.? A.—I have 25 per cent. and the third year 20 per cent. These figures while they vary with different companies they are somewhat about the mark, and they give you a pretty good idea as to the persistency of industrial business.

Q.—You would say from your knowledge of the business the figures you have given are fair average figures for industrial companies? A.—Yes.

Q.—And that would indicate, you say that the Union Life lapse rate is a favorable rate to the company? A.—Yes.

Q.—And I suppose the persistency of the business is one of the chief features in determining the value of the weekly debit of the company? A.—Yes.

Q.—Those policies that would lapse in the first year, the policyholders would lose all benefit? A.—They would receive nothing from the company.

Q.—The only advantage they would have received for their money would be the insurance meantime? A.—Yes.

Q.—That would be a large sum of money paid for that protection? A.—Yes.

Q.—And a great deal of it lapses? A.—Yes.

Q.—Would that large lapse rate in this kind of insurance have any bear-

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ing on the matter we were discussing this morning as to the necessity for a reserve at the end of the first year, would that be an additional reason for not requiring any? A.—None whatever, the reserve is quite an independent function as I tried to explain, it is the difference between the value of the sums insured and the value of the premiums.

Q.—But it was suggested to me the fact that there was a large lapse rate in industrial business might be an additional reason for not requiring much, if any, reserve on the first year's business? A.—It would not be a mathematical or actuarial reason.

Q.—A practical reason? A.—Yes.

Q.—A good deal of it passes off the books entirely at the end of the first year? A.—Yes, a great deal of business in force in the earlier part of the year would be gone at the end of the year.

Q.—A good deal of that issued in the early part of the year would have gone off the books? A.—Yes.

MR. LANGMUIR: Does that statement give the result of the policies taken over from the North American Life?

MR. TILLEY: No, this gives the Union Life.

MR. LANGMUIR: Cannot you give us a statement as to the persistency result of what was taken over of that \$800,000?

MR. TILLEY: No, Mr. Harvey, as I understand cannot speak of that at all, in fact he did not prepare that.

MR. LANGMUIR: Can the company give it to us?

MR. TILLEY: The company in its return to us dealt exclusively with the Union Life.

MR. LANGMUIR: It would be rather interesting to know as a matter of persistency of a policy how much of that \$800,000 is now in existence.

MR. McLAUGHLIN: We will have that prepared and put in before the Commission later on. I understand one great difficulty about that is that that was on the monthly payments, and that was very greatly converted after into weekly payments.

MR. TILLEY: This statement commences from the time they converted it from a monthly to a weekly basis.

Q.—What would be the effect on the company of these large lapses in the way of expense or profit to the company? A.—They inflict a heavy loss on the company.

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Q.—Explain why that is? A.—In the first place there is the medical fee to pay. The average premium is eight odd cents; if you divide that into 50 cents, the medical fee, you will see about 6 weeks' premium is taken up in paying the medical fee.

Q.—Does the company pay the doctor's examination fee? A.—Yes.

Q.—And when you speak of fifty cents being the medical fee are you speaking now of the Union Life? A.—Yes.

Q.—So that on every policy that is issued is there an examination by a doctor? A.—Every policy where the life is over ten years of age.

Q.—Under ten years of age? A.—No medical examination unless the case happens to call for it. They are taken without medical examination. Infantile lives, as they are called, are not medically examined.

MR. EVANS: I might explain the paid manager or superintendent of the company makes an inspection of children, not the agents only.

MR. TILLEY: Do I understand you to say that Dr. Millichamp makes an examination?

MR. EVANS: We have medical officers all over.

MR. TILLEY: Under ten years do you have an examination?

MR. EVANS: No.

MR. TILLEY: Q.—So that there is no examination under ten years of age? A.—No.

Q.—And it is fifty cents that is paid on each one of these?

MR. EVANS: Yes.

MR. TILLEY: You say this fee of the doctor would cover several weeks' premium? A.—Yes.

Q.—How many weeks? A.—On the average about 6 weeks.

MR. McLAUGHLIN: The fifty cents is only paid on those that are examined.

MR. TILLEY: Yes, the fifty cents is paid when there is an examination? A.—Yes, but there is an examination on every life that comes in over the age of ten.

Q.—And on that a fifty cent fee is paid? A.—Yes.

Q.—Is there any other item you would refer to? A.—Fifteen times special salary that is paid by the company.

Q.—Supposing a company pays an agent the special salary, that is paid at once as soon as the weekly debit is raised? A.—As soon as the business is turned in they pay the 15 times.

Q.—And then if it goes back they do not give him any more till it comes up and exceeds that amount, but he gets it in hand at once? A.—Yes; in the meantime the agent will get out and the company will lose that fifteen times.

Q.—That is what you were referring to this morning as paying special salary twice? A.—Yes. But it may interest you to know why we are supposed to pay 15 times. As a matter of fact it comes out fifty times, this special salary fee. It practically means fifty times of the net increase. To make my statement clear, at the end of the last year they had an increase in their debit of about \$1,000. If they had only paid out 15 times they would have only paid \$15,000 on account of special salary. As a matter of fact they paid \$50,000 in hard cash special salary for that \$1,000 increase.

Q.—You are speaking of the Union Life? A.—Yes.

Q.—And that is the condition that exists, you say in respect of young companies by reason of the debits not being large enough to hold the agent? A.—Yes.

Q.—That will tend to right itself? A.—Yes.

Q.—It will not always be fifty times? A.—No. When there is a sufficient debit for an agent to fall back upon and live he will stay with the company.

Q.—While they pay 15 times in cash now equal 50 times in actual results, but it will not always remain in that condition? A.—No, it will get smaller.

Q.—The agents will be more tied to the company? A.—That is just the idea.

Q.—Supposing the weekly debit goes up a dollar this week, and the next week it goes down two dollars, in the meantime will the agent have got his special salary? A.—He will only be paid on the increase, and then there will be nothing paid until he makes that decrease good, and makes an increase beyond the point where he was last paid for.

Q.—He gets the increase at once the moment it is increased? A.—Yes, he gets the money, he gets paid for it at the end of the week.

Q.—I suppose another matter would be the percentage of the debit that the agent is able to collect each week? A.—Undoubtedly.

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Q.—And in estimating that you compare one estimate with another in your method of comparison? A.—Yes.

Q.—And how do you find the Union Life works out in that regard? A.—You will understand that many of the premiums are a long way in advance, a policy may be two or three months in advance, another policy may be two or three weeks in arrear but the average percentage of collections last year was about 95 per cent. of the debit.

Q.—Explain what you mean by that, that is -to say each week the agent would have collected about 95 per cent. of the amount that was on his books to be collected for that week? A.—Yes, that is what the agents did collect last year on the average.

Q. In the Union Life? A.—Yes.

Q.—How does that compare with the experience of industrial companies generally? A.—It is very good, especially when the age of the company is taken into consideration, in fact it is higher than the average.

Q.—This exhibit 120 that we put in seems to indicate the amount that might be lost on a policy as being \$3.44½ on each policy written that lapsed during the year, would that be unreasonable? A.—I think not. I have not seen those figures, but I have no doubt it is substantially correct.

Q.—That would be what you would expect in a company as long in existence as this? A.—Yes.

Q.—It is not unnatural in that sort of business? A.—Not at all.

Q.—It is said that in the New York Investigation some witness, Mr. Fisk, said that these policies that lapsed, the insured very often took out new policies later? A.—Yes.

Q.—That while we speak of the policies being lapsed policies that does not mean the insurance on that particular life was permanently discontinued? A.—Oh no. It is not at all an unusual thing for the same life to be insured in the same company three or four times in the course of one year. He will drop one policy and then he will take out another policy. He will get into arrears and say "I won't pay those arrears," and the agent will lapse the policy and induce him to take another policy, and that means a medical fee is paid two or three times over on the same life in the same year.

Q.—They are sometimes on and off the books continually? A.—Yes.

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JUDGE MAC TAVISH: Would the item in the return in the words "Old policies revived" have reference to that? A.—Not in the case where a new insurance is issued, but in many cases the arrears are paid up and the policies that had lapsed would then be re-instated by the company.

MR. TILLEY: Q.—To some extent it would depend on the amount which the insured had allowed to get into arrears before he decided to insure again? A.—Yes.

Q.—If it is not too much he will pay it up and keep the old rate? A.—Yes.

Q.—And if it is too much he will drop that and start over again? A.—Yes.

Q.—Is there any means of forcing payment of these premiums in the industrial work? A.—There is no way of forcing them. There is no obligation on the part of the insured to pay a premium. He can discontinue if he likes; the company has no remedy.

Q.—On the child there would be no way of compelling payment at all? A.—There is no way on an adult life either.

Q.—If a policy is revived and the old premium is paid up the premiums in arrear, is there the new medical examination? A.—If the policy has been lapsed some times the company will insist upon a medical examination.

Q.—That is a matter of discretion, is it? A.—Yes.

Q.—There is no definite rule laid down about that matter? A.—If the policy has lapsed some times they will insist in every case upon the life being examined.

Q.—Is there any rule about allowing days of grace within which to pay premiums in industrial business? A.—Yes, four weeks.

Q.—Or practically a month? A.—Yes. If the insured dies during those four weeks of grace his claim has to be paid.

Q.—Are you speaking about what is established both in the United States and Canada? A.—Yes, the practice is the same in both countries.

MR. LANGMUIR: Do agents try to keep policyholders up through persistency? A.—Yes, I think they do, because it is to their interest to do so. The agents suffer from the lapses as well as the company.

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Q.—You have now seven millions in existence in the Union, if you could increase the persistency by 50 per cent. it would really be better than writing a million or two of new policies? A.—Much better.

MR. TILLEY: I am asked to ask you if you can give some general information as to the amount that English companies in the industrial business carry on their books as the cost of establishing the business, whether the amounts are large? A.—Very considerable. There is a company called the London, Edinburgh & Glasgow, it has been running now for about twenty years—

Q.—That is the one you mentioned this morning? A.—Did I mention it?

Q.—I think you did? A.—They have still on their accounts a large sum, probably a million and a half dollars—I should think in round numbers—of establishment expenses, and they are allowed under the British law to include that as an asset, and there it appears in black and white in the Board of Trade return.

Q.—It is said to be £346,157? A.—That is rather more than a million and a half dollars.

MR. McLAUGHLIN: I understand the law in England to be while their legal reserve shall be in proper securities, they are allowed to put their establishment expenses as an offset—A.—And when they make a little profit they will write it off this establishment account, and gradually reduce it.

MR. TILLEY: Q.—What is the amount of weekly debit of that company? A.—There is the premium income of \$2,000,000, £400,000 (Refers to Board of Trade Return).

Q.—That would be a weekly debit of about \$40,000? A.—Yes. It shows they have not paid the cost of establishing their business.

Q.—The Union Life Company does not permit its policyholders to share in the profits at all? A.—No sir.

Q.—It is a purely non-participating company? A.—Yes, strictly proprietary.

Q.—Mr. McLaughlin wants me to ask your opinion as to the value of the Union Life business to the National Agency Company? A.—I think the value of the Union Life business to the National Agency Company is one half a million dollars plus \$100,000 of unimpaired capital.

Q.—That is what you said this morning? A.—Yes; I hold to the statement.

MR. HELLMUTH: Q.—In giving the large number of lapses that take place in this industrial insurance did you ever make any calculation as to the average life of the industrial policy? A.—That would depend upon the age of the company.

Q.—I can quite understand that, but first of all taking the company like the Union Life that has been in operation some four or five years, what would be the average life of its policies? A.—Taking every policy issued?

Q.—Yes? A.—I could not say, but it must be very small, it could not be otherwise, because the company is only about four years old. It might come out a year or 18 months. It could easily be ascertained.

Q.—Have you calculated it in the older companies that have been, as you have said this morning, successful? A.—I will give it to you in the Metropolitan.

Q.—I want to get the average life of an industrial policy say the Metropolitan? A.—That will increase with the age of the company.

Q.—Take the Metropolitan? A.—As it is now, I think that has been stated, I do not know that I can find it. It is somewhere in this memorandum I have. I think he compared the average duration of the Metropolitan with the London Prudential; the Prudential being an older company the average is larger; I think it was something like 12 years with the London Prudential and 8 years for the Metropolitan. Those figures may not be correct. If you are anxious to determine the question perhaps you might find it in this memorandum.

Q.—I would be very glad if you could let me look at that, I will take care to return it to you? A.—You will find the figures there.

Q.—Can I keep it for a day or two? A.—You can keep it for a few days to look through that, it is there some place.

Q.—How long would a policy have to persist in order to clear the expense attending upon procuring it, what would be the average length required of an industrial policy, that is the persistence of it, in order to cover the expense incurred in obtaining it? A.—That depends upon the number of lapses, the policy that does not lapse—

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Q.—I am taking an average? A.—Well, a policy that does not lapse would soon be on a self-supporting basis, but the policy that persists has to pay for those that do not persist.

Q.—Can we get an average at all of what length of time the policies did persist, taking care of those that lapsed in a shorter time? A.—It would probably be on a self-supporting basis after one year, perhaps a little before, that will give you a rough idea.

Q.—If you can use a policy as an indication of an average it takes about a year to get rid of the cost of obtaining it? A.—Yes.

Q.—Mr. McLaughlin suggests that I ask you how long would it take to clear it of the reserve required for it, and the probable average mortality?

JUDGE MAC TAVISH: As well as the cost?

MR. HELLMUTH: Yes. I think I only asked as to the cost in the first place? A.—I think a policy that persisted would be well on a paying basis by the end of three years, allowing for the reserve and everything, so that it would be justly entitled at the end of three years to a surrender value. As a matter of fact all the policies issued by the Union Life are entitled to surrender value at the end of three years, not that that is the proper period at which to give the surrender value, but they are forced by competition to do so, to do as other companies do. I would like to say in that respect I think five years would be a much better period at which an industrial policy should receive a surrender value.

Q.—That is to say in your view until about five years, if the policy is dropped any short of that it should have no surrender value? A.—Yes, because as a matter of fact it has at the end of three years——

Q.—Because of competition? A.—Yes; and the laws of the different States in America provided that an ordinary policy should have a surrender value at the end of three years, and when industrial insurance came into force there was no change made in the law, and the industrial companies were held the same as the ordinary companies, whereas they ought not to have been, still they have endured it.

Q.—It is quite clear from what you have said about the cost, I should judge, that an industrial policy could not have a surrender value as early as the ordinary life policy? A.—Certainly not.

Q.—It is a very much more expensive class of business to procure? A.—Yes.

Q.—What do you do in reference to getting in these weekly premiums, assuming that your agents do not call, have you any method of calling outside of that? A.—The company would soon if the agent was not attending to his business find out, because the collections would be very poor. The assistant superintendents or manager, assistant managers are to see that the agent performs his duty.

Q.—Is it not a fairly common complaint of the insured that the premium is not collected? A.—I think not, because it is so great to the agent's interest to call and get it.

Q.—To get his commission? A.—Yes, and save the business.

Q.—Do you say that is not a common complaint in your experience? A.—No. No doubt complaints such as that are formulated against any company, but they are generally by disgruntled people who do not want to pay, and make that as an excuse for not paying.

Q.—What is the course taken by the head office when you find that an agent has given up his field, do you immediately put another agent on? A.—As soon as one can be got. The assistant superintendent has to go round and take charge of the business, and he does the business, and he gets nothing for it. He is paid a regular salary by the company, and that includes such services as that, and so the company would save the commission in that case.

Q.—That is the system that is followed? A.—Yes.

Q.—There are enormous profits derivable from this class of business? A.—Yes.

Q.—Do you know whether there has been any legislation at all as to curtailing the division of these enormous profits among the shareholders? A.—None that I know of.

Q.—Nothing suggested in that way? A.—No. One source of profit to an industrial company, indeed to an ordinary company is the large reserve fund. Take the case of a company that has a reserve fund of say one hundred million dollars—no uncommon case in the States. If that company values at $3\frac{1}{2}$ per cent., and it makes $4\frac{1}{2}$ per cent. on its investments, it has a surplus interest of one per cent., and that one per cent. on one

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hundred million dollars amounts to one million dollars pure profit to the company, and that is a big item.

Q.—You were speaking about the enormous dividends or profits that would result from these industrial companies, I understood you, rather over and above what you would expect the ordinary life company, after they had attained a certain number of years? A.—That is owing to the immense volume of business, there is a very, very small profit on the individual policy, hardly appreciable, but when you multiply that by some millions it becomes very considerable.

Q.—Is it not a fact that the Metropolitan divided comparatively recently something like twelve or fifteen million dollars among its policyholders? A.—Occasionally they will grant a dividend of ten weeks' premium, to certain of the old policies, not to all of them at once.

Q.—But that had amounted to a sum that ran into the millions? A.—Yes, but they did not pay it in cash; they authorized the agent to credit it on the receipt book of the insured.

Q.—But it is equivalent to that, they do not collect the premiums, they forego the premiums? A.—Yes, it is a genuine dividend.

Q.—It is practically taking the money from them and returning it? A.—Yes, it is a genuine dividend.

Q.—Do you know whether the Metropolitan are limited as to their dividends on their capital? A.—Limited by law to 7 per cent.

Q.—That is a capital that has been largely made by their profits? A.—Yes. As a matter of fact a million and a half of their profits was made up from the profits of the business, as I think I stated this morning.

Q.—Have you considered at all whether there should be anything in the nature of participating policies in the industrial business? There are such things.

Q.—It is not usual? A.—Well, in the case of the Metropolitan.

Q.—The Union Life has not advanced it? A.—No, and I should strongly advise against it. You may like to know as a matter of fact the Colonial of Jersey City, although it is not yet on a self-supporting basis, is paying dividends to its policyholders simply because the Metropolitan does it, and it gave the same amount of dividend, ten weeks' premiums.

Q.—You do not approve of that? A.—Well, it is there and it is treated as an expense to the company, and

it has to do it because of competition; it would not do it otherwise.

MR. TILLEY: I am asked to ask you what, if any, effect industrial insurance has on pauperism? A.—A very favorable effect, because it reduces undoubtedly the rates. I think that has been admitted in England, and in the United States too, that if it were not for industrial insurance the tax-payers would have to pay higher taxes.

MR. TILLEY: Mr. Carrie is not here to finish his examination just at present; in the meantime I will recall Mr. Evans to ask him a few questions that Mr. LeBeuf asked me to ask any manager of a company.

JUDGE MAC TAVISH: Very well.

H. POLLMAN EVANS, re-called by

MR. TILLEY: Q.—You are already sworn? A.—Yes.

Q.—From what has appeared in the evidence already it appears that you do a large business in Montreal? A.—Yes.

Q.—And in the Province of Quebec, do you have agencies in other cities? A.—Yes, in practically every city in Quebec.

Q.—Are your policies printed in both French and English? A.—Yes.

Q.—Is your advertising literature printed in both languages? A.—Yes.

Q.—Have you agents who speak French and others who speak English? A.—Yes.

Q.—And any who speak both? A.—We try to get them always to speak both, but unfortunately we do not always succeed.

Q.—You have I suppose a Manager in Montreal, take that city? A.—Yes.

Q.—Under him how many superintendents? A.—There are ten.

Q.—And under them how many agents? A.—They fluctuate, supposed to be about five under each superintendent.

Q.—So that there would be about 50 canvassing agents? A.—Yes.

Q.—To your manager you pay what salary? A.—I think he gets about \$30 a week, I am not just sure of the exact figure.

Q.—The superintendents? A.—\$15 to \$18 a week.

Q.—And the canvassing agents make profits according to their business that they write up, and the debit they collect? A.—Yes.

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Q.—Who employs the canvassing agents for the city of Montreal—let us take that as an example? A.—The individual superintendents pick them up wherever they can secure them, bring them into the office and introduce them to the Manager, and they are put to work.

Q.—Does the manager exercise any supervision over the employment of Canvassing Agents? A.—Do you mean by that he has power of selecting some and refusing others?

Q.—A veto power? A.—Yes, we would not employ any one that the manager did not approve of.

Q.—So that your superintendents select persons they are willing to employ, and then bring them to the manager for his approbation? A.—Yes. I do not say no one would be employed without being submitted to the manager, but as a rule that is the proceeding that is supposed to be followed.

Q.—And is the name of the agent who is employed reported to the head office? A.—Yes. Application for agency is made out, and sent in by every agent.

Q.—What information is given to you regarding the agent? A.—His age, place of birth, a great deal of information, and a great many questions.

Q.—Are you informed as to his habits? A.—Yes.

Q.—Whether he is temperate or intemperate? A.—Yes, there is a question asked as to his habits, several questions in fact.

Q.—Do you ask for any references? A.—Yes, several, four or five.

Q.—And are references as to his habits and mode of life forwarded to Toronto? A.—The Manager is supposed to inquire into that part at the local point, and he makes a report in turn, which accompanies the application for agency, stating whether or not he recommends the appointment of the agent.

Q.—Does he report to you the information he receives from other parties? A.—No, I do not think the form calls for that; he is supposed to report generally as to the result of his inquiry.

Q.—Is there any veto power exercised in Toronto at the head office? A.—Yes, if an agent was not satisfactory we would not employ him.

Q.—That would be after trial, I suppose? A.—Yes, after trial.

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Q.—But not on the report or at the initiation of his employment? A.—If it was unfavorable we would.

Q.—Have you ever exercised any such power of vetoing what the manager is prepared to recommend as to the employment of an agent? A.—No, I do not think we ever have refused to employ an agent that the manager recommended, except it may have been a former agent we knew information of and he did not.

Q.—If you did it would be by reason of your having special knowledge that your superintendents and manager in Montreal did not have? A.—Yes.

Q.—It would be very important in a district like that to have canvassers that could speak both languages? A.—Most important.

Q.—Do you know whether they can read or write? A.—They must or they could not make up their accounts.

Q.—I do not know that I am prepared to follow you in that argument? A.—We would not employ any one who could not write, we would not knowingly; they must, because they sign the application for agency. There is a good deal of clerical work that an agent has to perform, and it would be quite impossible for him to conduct his business unless he could read and write.

Q.—You have had no complaints about that against your company, that you employed persons who are not educated? A.—No, I know we never have, we certainly do not employ all educated people, because we cannot get them. If I understand you to mean people who are not able to read or write by that I certainly say we do not employ any one who can neither read nor write.

Q.—Have you ever had any statement made to you of misrepresentation made by your agents in Montreal or other parts of the Province of Quebec as to the terms of the document the applicant is signing? A.—No.

Q.—Never had any complaints of that nature? A.—No; I would not say we never had, we may have had occasional letters come in, I could not say we never have, probably we have. Certainly it would be very, very seldom. In a business of 40,000 policies a year we might get one or two letters in a year that would entirely escape my attention.

Q.—Did they entirely escape your attention, or are there not some cases of complaint in that way, not pro-

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bably many in number? A.—I could not recall any specific case; it is quite likely that there have been once or twice a year probably.

Q.—What means have you adopted to follow up the complaint? A.—Invariably write a personal letter to the manager and request him to make a confidential report on any complaint made against an agent, and we act on that.

Q.—Have you in mind any agent that you have had more than one complaint about? A.—No, I have not; that is our common practice in all cases of complaints from any cause.

Q.—I understand there is a good deal of feeling in Montreal and Quebec as to the practice of some companies in the poor selection of representatives? A.—Well, in industrial insurance it appears almost unavoidable that all of your agents are not drawn from the educated classes, because they prosecute their work among the industrial classes, and necessarily you would get a class of agents who would be most approachable to that class of people.

Q.—And you say the system of carrying on the work rather forced you to employ persons that you are not altogether satisfied with yourselves? A.—There is a natural selection in that way.

Q.—You are governed by the conditions that the agent must face in his work? A.—Yes.

Q.—And the educated man will not carry on the work that persons who are not so well educated would do? A.—We are not able to obtain their services exclusively, or perhaps even in half the cases.

Q.—Have you ever done anything more than write to the Montreal office about these complaints, have you ever followed them up yourself? A.—I think occasionally we have requested an inspector who may be passing through the district to make an investigation himself.

Q.—You go to Montreal yourself? A.—Not often, perhaps two or three times a year.

Q.—Have you ever yourself examined into a specific complaint? A.—No, I have no recollection of having done so.

Q.—Do you not think it is something that care should be exercised about to see parties are not misled? A.—We certainly do. When we send an inspector we are taking all the care that should be asked of us.

Q.—How many inspectors have you? A.—Two.

Q.—What territory do they cover? A.—They have no specific territory.

Q.—Two from Montreal? A.—Two to work throughout the three Provinces in which we operate.

Q.—What Provinces are those? A.—Ontario, Nova Scotia and Quebec.

Q.—What doctors do you employ? A.—We have two in the city of Montreal.

Q.—Who do all your work? A.—Yes.

Q.—Chosen by yourself? A.—Appointed by the company.

Q.—Are they doctors who can speak both languages? A.—Yes, both of them.

Q.—And is there any duty cast on them to see that the applicant understands the transaction he is entering into, to explain it to him? A.—Not duty, he is simply required to make his examination.

Q.—To make the physical examination of the applicant and report on it? A.—Yes.

Q.—As to whether the applicant is a healthy or proper risk? A.—Yes.

Q.—So that there is nothing in the way you carry on your business that puts a check on any impropriety on the part of the agent by having the doctor make some inquiry, or explain the transaction to the applicant? A.—No. Every one employed by the company could not be employed for that purpose. We have several checks, the superintendent's duty is to see everything is done properly, and the managers, and we certainly would not expect doctors in addition to their work to—

Q.—Does every applicant go before the superintendent? A.—Yes, except adults; the adults all pass under the examination of the medical examiner. All children are seen by the superintendent or manager.

Q.—And he must report to you that he has seen the child that is to be insured, that he considers the insurance proper? A.—And sign a certificate to that effect.

Q.—Is there anything he must certify to show he has explained the transaction to the applicant? A.—No.

MR. McLAUGHLIN: Mr. Evans has a few explanations he wants to make.

MR. TILLEY: Have you some explanations you want to make, Mr. Evans? A.—There is just one thing I

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would like to mention in connection with lapses. The charge has been made occasionally against industrial insurance that we connive at the lapsing of business. There is one thing I would like to state as to the policy of this company particularly in respect to lapses. We introduced about a year and a half ago a system in which we notify every lapsed policyholder of their lapse. The letters which we send are on file here. As a result of that last year we sent out 29,000 letters, individual letters, to which we received 452 replies, and of the replies which we received we succeeded in revising or re-writing 37 per cent. of the people that we got in touch with. I simply wanted to mention this to make it quite clear that the company uses every possible means to add to the persistency of the business. We sent out 14,000 letters first, and these were followed by a second letter, if no response was made to the first letter within ten days we sent another letter urging them to pay.

Q.—Is your system of paying agents of the nature that Mr. Harvey outlined? A.—Yes.

Q.—That is they are paid a special payment on the increase of their debit? A.—Yes, and 15 times.

Q.—And the full debit is shown on their books? A.—Yes.

Q.—That would indicate to some extent that it was an object to the agent to be increasing his debit? A.—Yes, but occasionally the agents leave, and when an agent leaves the company are afraid there may not be sufficient care given to the business by the incoming agent—

Q.—Because his payment starts over again? A.—Yes.

Q.—There is a chance it would not be very strenuous about keeping the debit up as high as he could? A.—Yes, and we give particular attention to lapses occurring at that time.

Q.—Is there anything else you wanted to explain? A.—Nothing more than to refer to the value of the business.

Q.—Can you add anything to what has been said? A.—Nothing more than to reiterate that. It was made to appear yesterday that dividends were paid while there were deficits being created. I would like to make that perfectly clear, in our opinion there were not deficits created, that the value of the business was there dur-

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ing any time or all time the dividends were paid.

Q.—You are speaking now of the value of the business estimated by multiplying the weekly debit a number of times as you did in 1905? A.—Yes.

Q.—You say you would have been justified in doing that earlier? A.—Yes. The contingent premiums were referred to yesterday, and those contingent premiums divided by the number of times we are considering now, that is 130 times, were much less, that is the contingent premiums on the basis of 130 times would have amounted to a great deal more than we put them in for. The most at any time I think would have been 64 times.

Q.—Is that what you wanted? A.—Yes.

MR. CARRIE, re-called by

MR. TILLEY: Q.—You are the book-keeper? A.—Yes sir.

Q.—And you would be able to say what salaries and commissions and payments have been made to all officers and servants of both the Union Life Company and the National Agency Company? A.—Yes.

Q.—And the Century Life Company since it has been owned by the National Agency Company? A.—Yes.

Q.—Is this a statement that as sent in to the Commission showing the Union Life Insurance Company's salaries prepared by you? A.—Yes.

Q.—This shows salaries for 1902, 1903, 1904 and 1905, each year separately? A.—That is correct.

Q.—I see that in the year 1902 Mr. Evans receives in director's fees \$10 and in commissions \$500, making in all \$510? A.—Yes.

Q.—And Mr. Symons received a salary of \$180 and fees \$10, making \$190. Dr. Millichamp, \$10 in fees and \$450 for medical fees, making \$460.

Q.—Then the other directors received director's fees only. That was practically just for the month of December, 1902? A.—That was for the six months, about from July.

Q.—In 1903 the statement shows that Mr. Evans received \$2,083.40 for salary and \$75 for director's fees, and \$3,000 for commissions, making \$5,158.40. Mr. Symons received \$360 for salary, \$75 for director's fees, making \$435. Dr. Millichamp received director's fees \$75, medical fees \$1,511.75, making \$1,586.75. And the other directors received director's fees

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only. In those years there would be other payments made to these gentlemen, I suppose, from the National Agency Company? A.—There were other amounts paid to them.

Q.—So that there was other remuneration they received from the companies jointly that are not shown here? A.—They had other remuneration but not from the Union Life.

Q.—This shows everything of the Union Life to date? A.—Yes, that shows everything returned in the statement of December 31st.

Q.—1904 Mr. Evans received \$4,433.36 salary, \$120 director's fees, \$1,700 for commissions, making \$6,253.36. Mr. Symons received \$360 salary, \$110 director's fees, total \$470. Dr. Millichamp received \$1,125 salary, \$120 director's fees, medical fees \$952.75, making \$2,197.75. The other directors received their director's fees only. In 1905 Mr. Evans received salary \$5,400, director's fees \$160, making \$5,560. Mr. Symons received \$360 salary, and \$170 director's fees, making \$530. Dr. Millichamp received \$1,500 salary, \$160 director's fees, \$1,500 medical fees, making \$3,160. And the other directors received director's fees only except W. H. Carrie, who received a salary of \$1,500; are you a director? A.—Yes.

Q.—That ends the statement as to the Union Life Insurance Company? A.—Yes.

Q.—What contracts have existed between Mr. Evans and the Union Life Insurance Company as to salary or commission? A.—Do you wish to recite from the organization of the company?

Q.—Yes? A.—In 1902, Mr. Evans, Vice-President and Managing Director of the National Agency Company, received a salary of \$2,500 a year.

Q.—I asked what contracts have existed between Mr. Evans and the Union Life Assurance Company as to salary or commission, not with the National Agency; the first contract with Mr. Evans is this one of 22nd August, 1901, is it not? A.—Yes.

Q.—That is between the National Agency Company and H. Pollman Evans and is very similar to the contract that I read this morning and put in, except that this contract entitled him to a commission of five per cent. on the gross premium receipts of the company instead of the net premium receipts of the company? A.—Yes.

Q.—So that this contract in 1901 entitled him to a commission of five per cent. on everything that was paid

into the company by way of premiums? A.—Yes.

Q.—That is the first contract with Mr. Evans as to salary? A.—Yes.

Q.—That is with the National Agency? A.—Yes.

—Contract with Mr. Evans just referred to marked as Exhibit 128.

Q.—Tell me what payments were made to Mr. Evans after that contract was made, or have you a complete statement of everything that has been paid to him by these companies, and we will put it in? A.—I will submit this statement to you which I prepared since last night. It is from all the records I had possession of, from the records of the National Agency, since its organization as far as the items appear in the ledger of that company. They are there as they appeared and as I found them.

Q.—Let me have the Union Life? A.—You have the Union Life already.

Q.—This statement gives Mr. Evans remuneration first, and it shows that in 1902 there was a payment of \$1,742 made up of \$1,500 salary, and \$240 commission. That would be in addition to the \$510 he got from the Union Life Insurance Company? A.—Yes.

Q.—In 1903 he received salary \$874.94, which would be in addition to the \$5,156.40? A.—Correct.

Q.—In 1904 he received director's fees \$90, salary \$166.64, making in all \$256.64. That would be in addition to the \$6,253.36? A.—Yes.

Q.—It would make those two payments to be \$6,500; that was on the basis on which he was being paid I suppose? A.—Yes.

Q.—Then in 1905 he received \$170 in addition to the \$5,560 that was shown in the other statements A.—Yes.

Q.—Were there no other payments made to Mr. Evans A.—I could find no record of any other payments being paid to him.

Q.—Don't you know of any other payments that were paid to him? A.—I could not say personally, it would be prior to any knowledge I had.

Q.—Have you heard of any others? A.—I do not know of any, no.

Q.—You do not know of any other premiums that were made to him at all? A.—None whatever.

Q.—This 5 per cent. commission would seem to entitle him to more commission fees, 5 per cent. on the gross premiums, would it not? A.—I have never discussed the matter

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with Mr. Evans, I do not know what his drawings were prior to the dates I have given to you.

Q.—1905, you know about that year? A.—Yes.

Q.—And then Mr. Evans received in 1902, \$1,085, 1903 \$1,580, 1904 \$1,835, 1905 \$2,875? A.—Yes.

Q.—Are those all the payments that had been made to Mr. Symons, do you know? A.—Yes, those are all that are exhibited there.

Q.—Are those all the payments that have been made to him by the company or either company? A.—As exhibited there, yes they are, all I know of, I know of no other payments.

Q.—No other moneys received from the company in any shape or form? A.—I think I prepared another statement where you may have seen some other items he has received, but not in the form of a salary.

Q.—Dr. Millichamp received \$499.92 the first year, \$833.20 the next, and the next \$371.54, and \$170 in 1905; this would be in addition to these payments here? A.—Yes.

Q.—Have you Dr. Millichamp's name in connection with some other transactions? A.—No, I do not believe I have with the exception of a very small item, and I have not had a chance since 1 o'clock this morning to probe it, the Doctor being here all afternoon, and I could not question him on it, and it was prior to any knowledge I had; it was a very small item.

Q.—What was it about? A.—It appeared to be a commission item of about \$75, and I would like to consult him to see how he came by it.

Q.—Dr. Hughes received in 1902 \$1,310, 1903 \$70, 1904 \$525, and 1905 \$1,664. Dr. Hughes has a new contract, has he not? A.—Yes.

Q.—Which will entitle him to salary at what rate? A.—At the rate of about \$3,000 a year.

Q.—Dr. Hughes was getting in that 1905 director's fees, salary and commission, what was his commission? A.—His commission was on stock that he sold.

Q.—I see in 1902 he got \$1,300 on commission, commissions for what? A.—For the sale of stock.

Q.—How many shares of stock did he sell? A.—I could not say off-hand.

Q.—Get the book and let me know? A.—I cannot find any record showing the number of shares. The matter might be traced by going through his applications. He had no debit ac-

count, the charges were made to commission account.

Q.—Did he subscribe for shares himself and sell that amount? A.—No, he sold them direct.

Q.—Do you know what rate that \$1,300 was computed at? A.—No, I suppose it was about 10 per cent.

Q.—The other directors' remuneration does not seem to be very large, what other statements have you—I will fasten these two statements of salaries and commissions and put them in as one exhibit. (Filed together as Exhibit 129.)

Q.—What do you say Mr. Symons received beside what you told us about? A.—You might read them there.

Q.—Tell us what this statement is? A.—This is a summary run off, but this is a separate item, this is not a summary.

Q.—Tell us what it is? A.—On December 15th, 1902, Mr. Symons received cash items amounting to \$23.66. In April of the following year he received another item amounting to \$193.90 re Hannaford. I am not quite clear on those items, I believe it was in connection with some arrangement of stock that occurred in the east. Mr. Symons has not discussed the matter with me. On March 24th, 1903, he received an item amounting to \$660.

Q.—What was that for? A.—Advance from the National Agency Co. to Mr. Symons on account of his electrical development securities which he holds and are in the company's vaults.

Q.—What date was that? A.—March 24th, 1903.

Q.—The company paid to Mr. Symons \$650? A.—Yes, the National Agency Company.

Q.—In connection with what? A.—In connection with the Electrical Development Co.

Q.—What does it mean? A.—It means a company incorporated for the development of electricity.

Q.—What does the transaction mean? A.—It means it was advanced to Mr. Symons, it was a loan to him.

Q.—Was that a loan? A.—Yes.

Q.—Ever repaid? A.—It has not been repaid yet.

Q.—Any note for it? A.—I believe Mr. Symons holds in the shape of collateral some shares in the Electrical Development Company which I believe were in the National Agency Company's vaults.

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Q.—You say that the National Agency hold some electrical development bonds or stocks? A.—I am not quite clear, I think it is stock.

Q.—Is there anything in the books to show? A.—No, nothing more than the advance to him.

Q.—And that is all that you can say about it? A.—Yes.

Q.—Were you in the company's office at that time? A.—Yes.

Q.—And that is all the explanation you ever had about the items? A.—That is the only explanation.

Q.—There is no note for it? A.—No.

Q.—No time for repayment? A.—I have never discussed the matter with Mr. Symons.

Q.—You do not know how much the stock amounts to? A.—No.

Q.—Anything else? A.—There are two or three sundry small amounts, one on account of advertising amounting to \$10.50, another small item \$9, and another item of \$2. The next item is January 3rd.

Q.—What would be the advertising item? A.—I believe it was something in connection with Mr. Symons personal affairs that was advanced and just charged in his account. It has not been adjusted. It may be overlooked by Mr. Symons, and possibly has not been forced upon him, otherwise he may have settled it. On January 3rd, 1904, he received a further remittance of \$1,123.

Q.—What was that for? A.—That was also an advance on the same account as the Electrical Development.

Q.—As this \$650? A.—Yes. Mr. Symons on January 2nd of the same year returned \$140 in the same account, and there is a balance still against him of \$1,872.86.

Q.—That is all you know about the transaction? A.—Yes.

Q.—He appears on the books to owe the Company that much money? A.—He knows he owes the Company.

Q.—That has been discussed between you? A.—Yes, I remember one time ago I mentioned the matter to him, and he knew about the matter at that time and acknowledged the indebtedness.

Q.—How many shares of Electrical Development stock have you got? A.—Of that company I don't know that we hold any, it is another electrical development company.

Q.—What electrical development company is it? A.—New York.

Q.—Tell us about it? A.—I cannot tell you an awful lot about it, because I simply don't know.

Q.—How many shares have you? A.—We possess none.

Q.—I thought it was in the vault? A.—I believe Mr. Symons has it.

Q.—Did you ever see it? A.—No, I understood from him he had it.

Q.—When? A.—It might have been some eight or nine months ago.

Q.—Did you ever speak to him? A.—I spoke to him about that time.

Q.—Did you ask him for security? A.—No.

Q.—How did it come to be mentioned between you and him? A.—We had several other smaller transactions, and I took occasion to jog his memory about the matter, and we discussed it further.

Q.—And he said he has some electrical stock? A.—I took that inference from it.

Q.—That he had some stock? A.—Yes, that he had some stock in this company and it is collateral towards that.

Q.—You said collateral, has it been transferred to the National Agency? A.—No, I cannot say it has.

Q.—How is it collateral to the loan? A.—I am not in a position to say that, I am not in a position to discuss this account more than to say there is an advance from the National Agency to Mr. Symons of which he has acknowledged the indebtedness and at any time he is obliged to redeem it.

Q.—He has acknowledged the indebtedness every time you have spoken to him about it? A.—Yes.

Q.—How many times have you mentioned it to him? A.—I may have mentioned it to him twice.

Q.—I suppose you mentioned it to him last time while this investigation is going on? A.—No, I have never mentioned it for eight months.

Q.—Did you not mention it to him yesterday? A.—No, he never discussed the matter with me or I with him.

MR. McLAUGHLIN: Mr. Symons had to go to New York last night. I will undertake to put in a statement of everything in connection with that item. It is too bad it did not arise when he was here.

MR. TILLEY: Q.—Let us have any other statements you have

Q.—Mr. Carrie has adopted a new system of book-keeping as to some of the books? A.—We are always adopt-

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ing new system in life insurance business.

Q.—What is the next statement? A.—I have an item here of sundry amounts paid out to brokers placing stock.

Q.—Who are the brokers? A.—You may read off the statement here.

Q.—Are there any directors' names on this? A.—I do not believe there are any, there may be.

Q.—Let us get to some more statements about the directors? A.—I do not find the directors have ever received any very large remuneration in the early period of the company; they appear to have been working for the love of it, and I could not find any other items than those you have seen. Mr. Kent asked me to prepare the net account of Mr. Evans—and how the different items were retired, and I have.

Q.—Before you commence that have you any other payments made to directors either in the early years or later years than what you have here? A.—No, none.

Q.—You have told us now of all payments whether for commission or salary? A.—Yes.

Q.—Any other financial dealings between the directors and the company? A.—They have none that I can trace.

Q.—Tell us about stock dealings with the directors? A.—The first exhibit is Mr. Evan's account, I think we went into that before, unless you wish to traverse the account again.

Q.—We will go over the account again? A.—In going over his account I find he has subscribed, or shares held or transferred to him 423 shares.

Q.—Including the original subscription? A.—Including all applications; for which the sum of \$34,075 had been to the credit of his account. He is transferred 371 shares, together with cash amounting to \$22,875, leaving shares still held, 52 shares, \$5,200. Those shares are fully paid up, for which there is a small indebtedness in form of a note.

Q.—Whose note? A.—Mr. Evans' note.

Q.—How much is the note? A.—The note amounts to about \$1,750.

Q.—And that note has been running how long? A.—There are a number of notes covering the different subscriptions to shares and the transfers to his account.

Q.—I understand he would subscribe for the stock, it would be sold by some

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agent of the company, and the proceeds would be credited to his account? A.—That is stock that he is transferring away.

Q.—Yes? A.—No, I might explain to you that after the shares were allotted to him, the last allotments, he relieved quite a few shareholders of their holdings, they being unable to carry the stock and meet the calls, he relieved them of their shares and gave the company his note, paying up the difference. He held those shares until such times as there was an opportunity occurred as they may have been transferred away to other applicants that came through the brokers in the field. His notes of course of these credits should come in, and they would be applied to the credit of his notes.

Q.—Are these accounts of stock transactions? A.—Yes.

Q.—And they show all the stock that was transferred to him? A.—All the stock that is here.

Q.—What is this column? A.—That is transferring away the cash from his account to the one transferred to.

Q.—Transferring his cash? A.—Yes, from his own account to the account of the one to whom the shares were transferred.

Q.—Did he sell some to Mr. Harry Symons? A.—Early in 1901 I find some 13 shares were transferred to Mr. Symons, on which a cash payment had previously been paid of \$1,250.

Q.—Can you tell me what profit Mr. Evans has made out of these stock transactions? A.—No, I cannot tell you that, any more than it would be hard for me to say what profits he made, because I would not be necessarily aware of every deal that he might have made.

Q.—He got all this stock that was allotted to him in July, September and October, 1904, at par? A.—Yes.

Q.—He got his first holdings of 96 shares at par? A.—Yes.

Q.—The stock he got from these other shareholders on what terms did he get them? A.—He accepted them the same as they had been allotted in the first place at 125.

Q.—He would take all their stock? A.—Take over their stock.

Q.—Would he pay anything for it? A.—He would give his note to the company for the balance due on the calls.

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Q.—What did he pay the persons from whom he got the stock? A.—He would not pay them anything because they would transfer to him their shares or sufficient of their shares.

Q.—Which? A.—They would transfer sufficient of their shares to make the balance fully paid up.

Q.—Do you say Mr. Evans took the responsibility off these shareholders without any profit as between him and the shareholders? A.—Yes, without any profit whatever.

Q.—That is the shareholder that turned them over to him did not lose anything on the transaction at all? A.—He was relieved of the call.

Q.—Did he lose what he had paid? A.—Oh no, absolutely no; he holds sufficient to make whatever balance of his holdings would be fully paid up, or paid enough up to protect it for that call.

Q.—Mr. Evans would get only a sufficient number of shares to represent unpaid—

MR. EVANS: A number of these people were very apprehensive about these calls, and I took a number of them to relieve that anxiety. They wrote in many times, and we took the stock off their hands for the express purpose of relieving them, and we made nothing out of it whatsoever.

MR. TILLEY: Q.—Probably Mr. Evans could just say to what extent there was profit in all these dealings.

MR. EVANS: There was no profit on any transfers we took from other people.

MR. TILLEY: On the allotment how much?

MR. EVANS: I could not say, probably ten or twelve dollars a share on an average, sold to different people at different prices.

Q.—Have you anything else? A.—No. The same thing was done by Mr. Symons and Dr. Millichamp.

Q.—Mr. Symons subscribed for how many, how many did he get direct? A.—Originally about 100.

Q.—And then 194 more? A.—No, he originally subscribed for 1, 1 share was allotted to him, 13 were transferred, and then he made application for 12 more, and then 74 were allotted to him, and then he relieved some shareholder of 10; the shareholder was a little distressed and he took them from him until such time as he betided him over his difficulties.

Q.—There was no profit on that transaction? A.—No.

Q.—But there would be on what was allotted to him? A.—Yes.

Q.—Any other shareholders the same? A.—I was not able to complete another statement. This is Dr. Millichamp, but the Doctor had very little dealings in transfers.

Q.—He got very few transfers; he had allotted to him—? A.—About 140 shares.

Q.—And I suppose he got those at par? A.—He got part of them at par. He got about 130 at par.

Q.—He paid for them by his note? A.—Yes, and cash.

Q.—How much cash did you ever get from him? A.—You will find there.

Q.—But it was principally by note? A.—Yes.

Q.—And the same way with Mr. Symons? A.—Yes.

Q.—And the agents would sell the stock as they could? A.—The agents would place the balance of the stock.

Q.—Agents were out selling stock for the company? A.—Yes.

Q.—And when application for some shares would come in the application might be filled from Mr. Symons' stock or Mr. Evans' stock or the Company's stock? A.—Or Mr. Jones's, or Mr. Green's, or anybody who had made application to be relieved, he gave us power of attorney to transfer his shares for a certain number.

Q.—Have all these notes been paid other than Mr. Evans you spoke about, or are they still outstanding? A.—There is a very small balance of Dr. Millichamp's.

Q.—How much? A.—Balance December 31st, \$657. I think there is another credit again, possibly three or four hundred dollars. Mr. Symons' balance of his note \$2,426. He has had some other credits since the first of the year of two or three hundred dollars.

Q.—About \$2,200? A.—Yes.

Q.—So that Mr. Symons owes the company about \$4,000 now? A.—Yes.

Q.—Is that all he owes? A.—All I know of.

Q.—Is that all Mr. Evans owes you have told us about? A.—Yes, about \$1,750.

Q.—Have you told us all that Dr. Millichamp owes? A.—Everything.

Q.—And also Dr. Hughes? A.—Dr. Hughes owes the company nothing that I know of.

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Q.—Did we put the amount of Dr. Millichamp down? A.—It must be about \$450.

Q.—Has interest been charged on these notes? A.—Always.

Q.—At what rate? A.—6 per cent.

Q.—There are no other loans made to the directors than what you have told us about? A.—None whatever.

MR. KENT: I would like Mr. Carrie to furnish the Commission by the 21st instant, or as soon after as possible, with a statement showing the total amount received by Mr. Evans from the 1st January, 1901, to date, whether these amounts have been received as salary, commission, profit on the sale of stock or securities, or generally from any source whatever. The information you have furnished is not as clear to my mind as I would like it to have been given. It is not as full as I expected it would have been, and I conceive it my duty to ask for this statement as far as Mr. Evans is concerned, in order to see what total amount he has received in the last five years from his connection with both these companies, and any transactions in connection therewith? A.—A statement will be prepared. I would like to make an explanation: I may state the National Agency Company was not given the privilege of preparing any statements whatever to present to the Commission. The Life Company have prepared all their statements, but the National Agency were called upon at a moment's notice to prepare and deliver any statements and books they possess, and they had no intimation they were going to be called upon, never expected it.

JUDGE MAC TAVISH: You will have the opportunity now.

MR. SHEPLEY: Subject to any exigency that may arise hereafter I wish to rest here as to these two companies. That of course is not absolutely final, but it is practically I think.

MR. McLAUGHLIN: In connection with this company, when we furnish what further material we are asked to put in I would like to have the opportunity of filing a summary, not an argument but just a summary of the state of the affairs of the company as gathered from the evidence, which I will sign. It is different from the other companies, being an industrial company, and I think I can prepare a summary that will at least not increase the labors of the Commission, and possibly diminish them to some extent.

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(W. H. Carrie, ex'd)

JUDGE MAC TAVISH: From the evidence that is put in?

MR. McLAUGHLIN: From the evidence and statements put in; I might add a few words of reflection upon it.

JUDGE MAC TAVISH: What have you to say to that, Mr. Shepley?

MR. SHEPLEY: I don't suppose that the Commission will reject any information they get addressed to the Secretary from any quarter.

JUDGE MAC TAVISH: No, I was going to say that, we are wanting information.

The Commission adjourned at 4 P.M. to Monday, 21st May, 1906, at 11 A.M. at Toronto.

TWENTY-SIXTH DAY.

MORNING SESSION.

Toronto, May 21st, 1906.

MR. TILLEY: Your honors will remember that on the closing of the last sitting of the Commission a statement was requested from the Union Life as to salaries, commissions and so on, received by the directors of the company. The statement was to have been furnished to us in time for us to check it before the Commission met again: but the company report that they have not been able to complete the statement as yet, and we prefer that it should not be taken up until we have had an opportunity of checking it, and then we can deal with the matter as soon as they have supplemented the statement.

JUDGE MAC TAVISH: Yes.

NORTH AMERICAN LIFE ASSURANCE COMPANY.

MR. SHEPLEY: I am proposing this morning to ask some questions of the Managing Director of the North American Life Assurance Company.

LEOPOLD GOLDMAN, sworn. Examined by Mr. Shepley:

Q.—You have been, for a great many years, connected with the North American Life Assurance Company? A.—Yes.

Q.—You are now what? A.—Managing director.

Q.—You succeeded in that position the late Mr. McCabe? A.—Yes.

Q.—In what year? A.—April 29th, 1903.

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Q.—That was immediately after his death? A.—A few days after his death.

Q.—How long before that had you been connected with the company? A.—Since January 4th, 1881.

Q.—That was within a very few years after its incorporation? A.—It was when it commenced business.

Q.—So that your connection with the company has been continuously maintained throughout its whole history? A.—Yes.

Q.—What offices have you filled there, commencing with 1881? A.—I was Secretary.

Q.—Secretary up to the time that Mr. McCabe died? A.—Yes.

Q.—And then you succeeded him? A.—I then succeeded him.

Q.—Had you insurance experience before you joined yourself to the North American Life Assurance Company? A.—I had about seven years' experience.

Q.—Where? A.—In the Confederation Life.

Q.—What was your position there? A.—Accountant.

Q.—Accountant for the whole seven years? A.—Yes.

Q.—And that was your practical insurance experience before you went into the North American Life? A.—Yes.

Q.—Are you an actuary by profession? A.—No, I am a member of the Institute of Actuaries, but I have never practised as an actuary.

Q.—Who is charged with the responsibility for the actuarial work in the North American Life? A.—We have an Actuarial Department there, Mr. Kilgour and Mr. Campbell.

Q.—What offices do they hold? A.—And we have a consulting actuary.

Q.—Who is your consulting actuary? A.—Mr. W. T. Standon.

Q.—Of? A.—He was of New York until the end of the year, and now he is living in Denver.

Q.—How often does he come to Toronto? A.—Once or twice a year.

Q.—Then the staff of the actuarial department does the actual work? A.—Yes.

Q.—Are you at all familiar with the actuarial department? A.—Well, I have not given much time to it.

Q.—Where an enquiry touches upon actuarial matters perhaps you will tell me whom I should ask? A.—Mr. Kilgour. He has specially prepared himself for your examination.

Q.—The company was incorporated in 1879: you perhaps are aware of that? A.—Yes.

Q.—By an Act of the Dominion Parliament? A.—Yes.

Q.—And I propose to ask you some questions with regard to the provisions of the Statute, and then some questions with regard to the amending Acts, and after that some questions with regard to the by-laws under which your company is working. In the first place, do you remember what the provision was with regard to the capital stock in the Act of Incorporation? You are perfectly at liberty to look at the book. I see you have it there? A.—My recollection is that it was \$100,000.

Q.—That was to be subscribed: that was under the second section of the Act, apparently, and it was called in that a guarantee fund? A.—Yes.

Q.—That section provided, "Before commencing business and issuing policies there shall have been a guarantee fund subscribed," etc. (Reads.) Then are you able to remember from your knowledge of the inception of the company, whether or not before commencing to do business these provisions were complied with? A.—That is my recollection.

Q.—That \$100,000 was subscribed to the Guarantee fund? A.—Yes.

Q.—And do you remember what was paid on it? A.—I think fifty per cent.

Q.—Our information is sixty. However, we will get that accurately. I do not want to have it taken down inaccurately? A.—No. I can verify that, though. I think it was fifty.

Q.—Was there another ten paid? A.—Subsequently you will notice there was a change.

Q.—I know there was? A.—And I think there was then ten per cent. more paid.

Q.—Then I might as well finish that. On a subsequent occasion the Guarantee fund was raised to what? A.—\$300,000.

Q.—And you think it was then another ten per cent. or another \$10,000 was paid? A.—Because it was provided that 20 per cent. should be paid.

Q.—That with the original fifty, assuming it came in sections that way, that with the original fifty would make sixty per cent. upon \$100,000 or 20 per cent. upon \$300,000? A.—Exactly.

Q.—Then has the Guarantee fund or capital stock since been increased beyond the \$300,000? A.—No.

Q.—Has anything more been paid on account than the original sixty or twenty per cent? A.—No.

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Q.—So that at present, indeed, since the alteration, your capital stock has been \$300,000, of which sixty thousand dollars has been paid up? A.—Yes.

Q.—And the business of the North American Life has been developed upon a paid up capital of \$60,000? A.—That is correct, sir.

Q.—Then there is a provision here for redemption of the Guarantee Fund by the Company: I understand that that has never been taken advantage of? A.—Never.

Q.—Then there is a provision that until redemption the directors may pay holders of shares interest on the amount paid up, at such rate as may be agreed upon by the directors. What rate of interest has been paid upon the \$60,000 paid up capital? A.—It varied for some years, but for a good many years it has been ten per cent.

Q.—When you say a great many years, would it be fifteen or twenty years? A.—I think about fourteen years.

Q.—For about fourteen years the interest has been paid in the shape of dividends I suppose? A.—Yes.

Q.—Out of the profits of the Company? A.—Yes.

Q.—To the extent of \$10,000 upon the \$60,000 of paid up Guarantee fund or capital? A.—Yes.

Q.—Then there is a provision which I wish to have upon the record, "such guarantee fund shall have been redeemed," which you say has not taken place—"The whole of the revenues and profits of the company shall belong exclusively to the policyholders, and shall be henceforth divided amongst them in such proportion and at such times as the directors shall appoint": you are aware of that provision? A.—Yes.

Q.—So that the policyholders, subject to the right to redeem the Guarantee Fund, are entitled to the whole of the profits made by your company? A.—If that took place.

Q.—I say subject to that? A.—Yes.

Q.—Then there is a provision that redemption should not be affected until the full deposit required by the Insurance Act should have been made: that I suppose was made long long ago? A.—Yes.

Q.—Perhaps you made it from the beginning? A.—Yes, we did from the beginning.

Q.—So that you have always been in a position to redeem the Guarantee

Fund so far as the Statute is concerned? A.—Yes.

Q.—Has the question of redeeming the Guarantee Fund ever been discussed? A.—Never.

Q.—Never has been discussed? A.—No.

Q.—Never mentioned at all at any of the meetings of the Board, or at any meeting of those who were members of the company? A.—Never to my knowledge.

Q.—Speaking as an insurance man, would the redemption of the Guarantee Fund—that is the payment back of the \$60,000 of stock—leave this company practically a mutual company? A.—Yes.

Q.—Then there is a provision for provisional directors. Then they are to open books for the subscription of the Guarantee Fund, and open books for applications for insurance to be effected by the company. "As soon as the Guarantee Fund has been subscribed and applications have been received and accepted amounting to \$100,000, the provisional directors shall call a meeting of the guarantors and persons who have made such applications for insurance for the election of such Board of Directors," etc. (Reads.) That was the original provision? A.—Yes.

Q.—And in the first clause those who applied for insurance were made members of the company as well as those who subscribed to the Guarantee Fund? A.—Yes.

Q.—The original voting power then was one vote for each hundred, so far as the Guarantee fund subscribers were concerned, and one vote for each five thousand of insurance so far as the policyholders were concerned? A.—Yes.

Q.—You have been with the company since it commenced business? A.—Yes.

Q.—Had it written more than \$100,000 of insurance when it commenced to organize? A.—My recollection is it was \$200,000.

Q.—You have no doubt, I suppose, that the Statute was substantially complied with? A.—Oh, yes.

Q.—Then there is the specific provision that any individual or corporation who is a legal or beneficial holder of a policy of insurance in the company, or a subscriber to the Guarantee fund hereinbefore mentioned, and who shall have paid all dues, premiums or calls thereon mentioned, shall be a member of the company

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and entitled to all benefits thereof under the provisions of this Act? A.—Yes.

Q.—Then power is given to the provisional directors, or the directors to be elected, to enact by-laws for the organization, maintenance and government of the company, as well as for the application of its funds and profits as herein provided, and these by-laws may from time to time be altered and amended, not to be inconsistent with laws—I do not know whether that is correctly printed or not—and they are to be legal and binding until altered: then they are to be approved by a general meeting. Then your first Board to be elected was to consist of not less than seven nor more than 25 directors, four of whom were to form a quorum, and there was to be one director President and another Vice President, and the qualification—do you remember what that was? A.—I think it was a holder of \$2,000 of the Guarantee Fund, or a policyholder of \$5,000.

Q.—You are quite right: has that qualification ever been changed? A.—Not to my knowledge.

Q.—And that is the qualification to-day? A.—Yes.

Q.—Then policyholders to the extent of \$5,000 being members have always had an eligibility for membership of the Board? A.—Yes.

Q.—With those who were subscribers to the Guarantee Fund? A.—Yes.

Q.—Then I pass over the other provisions of that section and come to section 8, which enables the directors to appoint committees with certain powers and to discharge such duties the directors may from time to time confer and impose on them. But they are at all times in regard to their actions and duties to be subject to the control of the said Board of directors. I won't go into that in detail now. I will go into that later on. But has that power been exercised by the Board of Directors? Have you had committees? A.—Yes.

Q.—You have had committees in executive charge of the business of the company? A.—Yes.

Q.—Then there is a provision for a general meeting; then a provision as to the Head Office, and then the provision is repeated as to votes, and then there is something—that is \$100 interest in the Guarantee Fund entitles the holder to a vote, and \$5,000 insurance entitles the holder to a vote. “No proxy can vote unless he is himself a member qualified to vote.”

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Is that still the law in your company? A.—Yes. You will see an amendment later on.

Q.—But it does not affect that? A.—No.

Q.—Any proxy must himself be a qualified voter? A.—Yes.

Q.—Then there is a provision for investment of your funds which I pass over, because it was not very long before that provision was—well, it was a considerable time—it was 1897, I think, when the alteration was made? A.—Yes, there was an amendment made in 1897.

Q.—You had powers from the beginning to invest in the debentures and stocks of the Dominion, or on the security of them, or the securities of any of the Provinces, or the securities of any Municipal Corporation, or on the securities of stock or debentures of any incorporated building society, loan or investment company, bank stock, real estate or mortgage security thereon, or the security of leaseholds, and so on and so on, and on your own life policies to the extent of their surrender value. That was your original power of investment? A.—Yes.

Q.—And that power of investment remained so, except as affected by the General Acts of the Dominion on the subject of insurance until 1897? A.—Yes.

Q.—Then there was a provision that the company may invest or deposit such portion of its funds in foreign securities as may be necessary in the establishment or maintenance of any foreign branch? A.—Yes.

Q.—Then you were made subject to certain Statutes which are named, certain provisions of certain Statutes, certain general Acts? A.—Yes.

Q.—Then in 1882 you would be familiar with the changes, because you went there in 1881. In 1882 an amendment was obtained which altered the name of the company? A.—Yes.

Q.—And made some other alteration that you will find at page 8 of the pamphlet? A.—Yes.

Q.—It had been the North American Life Insurance Company? A.—Yes.

Q.—The name was changed to the North American Life Assurance Company? A.—Yes.

Q.—Then there was an alteration in the seventh section of the main Act in respect of the Board of Directors. Can you tell me in a word what that

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was. It enabled, I see two Vice Presidents to be elected of one, and the \$5,000 policy, in respect of which the holder was given a right to vote was required to be participating: you observe that perhaps? A.—Yes.

Q.—That altered the policyholder's right of voting, so that unless a non-participating policyholder might have voted before that on a \$5,000 policy, after this Act he no longer could? A.—No.

Q.—Then the Act was further amended by enabling the directors to determine their own remuneration, subject to the approval of the shareholders? A.—Yes.

Q.—And then there was the provision which is common to many companies, "May make or cause or authorize to be made for the company any description of contract which the company may by law enter into, and may from time to time fix or determine the remuneration of any committees, sub boards, local agents or other officers? A.—Yes.

Q.—Then came a change in the voting strength: that was a very substantial change, was it not? A.—Yes.

Q.—It gave every person who had \$100 subscribed to the Guarantee Fund five votes? A.—Yes.

Q.—Five votes for every \$100? A.—Yes.

Q.—And it also increased the voting power in respect of insurance policies by giving a vote for each \$1,000 of participating insurance? A.—Yes.

Q.—One vote for \$1,000 of participating insurance, and five votes for \$100 of Guarantee Fund? A.—Yes.

Q.—Then in 1897 you had another Statute passed. I see that there was a somewhat more comprehensive description, perhaps a more modern description would be the better way to put it, of the sort of insurance contract you could enter into? A.—Yes.

Q.—Perhaps the language of your old Act got a little out of fashion? A.—Well, it was ambiguous, I think.

Q.—Then there is a provision with respect to the Guarantee stock which I call your attention to. Section 3 of the original main Act was repealed, and this was substituted for it: "that the Guarantee Fund so subscribed shall be liable for the payment of losses." That was old? A.—Yes.

Q.—"And may be used in such manner and to such extent as the direc-

tors by by-law may determine": that was old also? A.—Yes.

Q.—Then the next provision is old, except it provided what funds might be provided for? A.—Yes.

Q.—"Until redemption the directors may pay to the holders of such shares such amount, not exceeding fifteen per cent. per annum." That put a limitation upon the power of paying dividends to the guaranteed stock? A.—Yes.

Q.—Then the next provision was that the profits from the non-participating policies were first to be applied towards the payment of these dividends? A.—Yes.

Q.—Then came the provision that the whole of the divisible profits, if redeemed, should belong to participating policyholders? A.—Yes.

Q.—That was old, with the limitation of participating? A.—Yes.

Q.—The policies being participating? A.—Yes.

Q.—You have, I think you told me never exceeded the ten per cent., never paid as high as fifteen per cent. upon the guaranteed stock? A.—No, never.

Q.—Then can you tell me Mr. Goldman, what was the occasion for the repeal of the old section defining your powers of investment and the passing of this new section as it is in this Act? A.—I think it was the introduction of electricity and the desire to get investments of that kind.

Q.—This added to the subjects of investment, Waterworks Company stock or bonds, Gas Company stock or bonds, Street Railway stock or bonds, Electric Light or Power Company stock or bonds, Electric Railway or Street Railway or Telegraph Company stock or bonds? A.—Yes I think so.

Q.—Adding the requirement that these companies must be incorporated in Canada? A.—Yes.

Q.—Then the rest seems to be as it was in the original statute until you come to the powers of investment in the United States; those are new. That is you had the general power to invest in foreign securities as much as necessary for the establishment and maintenance of a foreign branch? A.—Yes.

Q.—There is now a clearer definition in 1897 of the powers you were to have in respect of foreign investments. Do you observe that at page 12? A.—Yes.

Q.—Then the definition is, "in or upon the stocks, bonds or debentures of the United States or of any State thereof, or of any municipality in the

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United Kingdom or in the United States or any State thereof, or in or on mortgages or real estate therein, (but the amount so invested in the United States, shall not at any time exceed the reserve upon all outstanding policies in force in the United States, and the amount so invested in the United Kingdom shall not at any time exceed the reserve upon all outstanding policies in force in the United Kingdom, and such reserve in each case shall be calculated upon the basis prescribed by the Insurance Act.)" That was your power of foreign investment, you recognise that? A.—Yes, at that time.

Q.—At that time—in 1897? A.—Yes.

Q.—Then you can tell us of course at once when the General Dominion Act upon the subject of investment was changed? A.—1899.

Q.—What is the position of your Company with respect to the power of investment, do you take the position that you have all the powers that are given by the Insurance Act? A.—Yes.

Q.—If they are wider than the powers in your Act? A.—If you remember, sir, it stipulates that it does not diminish, it gives us greater powers but does not take away any we have.

Q.—I am not at all quarrelling with the attitude of your Company, but I want to get it so we can understand it. You contend that if either of these Acts is wider than the other, you have the powers of both? A.—Yes.

Q.—Then you have furnished us, Mr. Goldman, with a copy of your by-laws, as I understand it, being the by-laws as they are at present in force? A.—Yes.

Q.—I shall have to ask you specifically perhaps with regard to two or three of them, how long they have been in force. When was your Board fixed at 11, because the Statute says not fewer than 7 or more than 25? A.—I think perhaps I can tell you. I will get a memorandum I have on that point.

MR. LANGMUIR: I would like very much if the Commission can be supplied with copies of these by-laws as you are quoting from them? A.—We can send up and get them.

JUDGE MACTAVISH: Do so please, at the adjournment.

MR. SHEPLEY: The question was, when your Board was fixed at the number of 11, which is the second by-law now in force. "The number on the Board of Directors shall be 11?" A.—It seems that is the position now.

Q.—I do not know that it is very important, but we can find it if it is. We will not trouble about that longer now. Then the 5th by-law provides that there shall be one standing Committee of the Board of Directors, to be called the Executive, to be subject to the control of the Board in all its actions and duties and to whom it shall report monthly." Now that Executive Committee is continued from the beginning as I understand it? A.—Well, there has been an Executive Committee.

Q.—How far back? We have only asked you for information for 15 years? A.—Well, in 1891 we had a Finance Committee, an Insurance Committee and an Agency Committee.

Q.—You had other committees in the earlier part of the period over which you have been asked to search? A.—Yes. In 1892 and 1893 we had the Executive Committee, Finance and Agency.

Q.—In 1891 you had besides the Executive, an Insurance, an Agency and an Auditing Committee. Similarly in 1892 you had all 5 Committees. In 1893 the Executive Committee was reduced to 6 members, the Finance Committee was reduced to 2, the Agency to 4, and the other Committees were continued as during the previous years. 1894 and 1895 the same. 1896 the Executive consisted of 8 members and all the other Committees were discontinued and they have remained discontinued since? A.—Yes.

Q.—So since 1896 you have had the Board of Directors, you have had the Executive Committee and you have had no other committees of the Board? A.—No other Committee, no.

Q.—Then matters continued in that condition until 1892 when you reduced your Executive to 7 members? A.—Yes.

Q.—And with the exception of one year, which was 1905 it has always had 7 members since? A.—7 members since.

Q.—In 1905 it had 8? A.—Yes, in 1905 eight, correct.

Q.—Then the composition of the Executive Committee is also prescribed by the by-laws; the Executive Committee is to consist of the President, the Vice-Presidents, the Managing Director and 4 other Directors to be appointed by the Board. That would be 8 of course. 4 members of the Committee are to form a quorum. "They shall, subject as aforesaid, advise and direct the officers as to the course to be pursued by them, and

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generally exercise control over the interests of the Company." They are to superintend and direct all special expenditures not specifically authorized by the Board, and the investment of the funds of the Company; and it shall be the duty of the officers to consult and advise with them on all important matters connected with the financial affairs as well as the insurance agency and other business of the Company. The Executive Committee then had very ample powers? A.—Yes.

Q.—It always has had? A.—Yes.

Q.—Then I pass over the duty of the President. The Managing Director, under the direction of the Board, is charged with the supervision and control of the general business of the Company. He has the custody of the books, papers, funds, securities and other property of the Company, subject to the control and direction of the Board. He has to affix the seal and discharge all such duties as the nature of the office of Managing Director shall require or the Board may from time to time direct. Mr. McCabe filled the office of Managing Director from the time of the Company commencing to do business until his death? A.—Yes.

Q.—Then if you look at the top of page 16, you will find this provision. It seems to be two by-laws run together, 15 and 16. "The remuneration payable to the directors for attending Board and Committee meetings held during each year, as also the President, two Vice-Presidents and to the Chairman of the Executive Committee shall be the sum of \$8,500 per annum? A.—Yes.

Q.—That is a fund which is divided in making the remuneration under this by-law? A.—Yes.

Q.—How long has it been \$8,500? Perhaps you would want to refer to something for that. If you do not know, we will not delay at this point? A.—At the annual General Meeting in Jan., 1904.

Q.—Do you remember what it had been before that? That was a rise, of course? A.—Oh yes.

Q.—We will probably get that a little more in detail when we come to another branch of the inquiry? A.—I think we have it all set out somewhere.

Q.—Then there is a provision with regard to solicitors; a provision with regard to banks, which requires monies to be deposited in the bank or banks selected by the Board whenever

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the sum on hand shall amount to \$100. Has that always been followed? A.—Yes.

Q.—And it forbids money being drawn from the bank except by cheque signed in a certain way, which is prescribed. Has that always been followed also? A.—Yes.

Q.—Then there is a provision as to meetings of Committees, and a provision for provincial and local Boards. Have you had any provision for provincial and local Boards? A.—We have had years ago, and I think there are perhaps one or two in existence.

Q.—Still? A.—Yes.

Q.—Where would they be? A.—I think there is one in Nova Scotia.

Q.—Do they control anything? A.—No.

Q.—All your business, as I understand from the information you have been good enough to give us, is really controlled through the head office? A.—Yes.

Q.—Has any provincial or local Board which may be the residuum of your old practice, any functions any longer? A.—No, they really have not.

Q.—I would like perhaps, if you will have someone make a note of that just as I ask it, to see whether there is any further information that I ought to have with regard to the provincial and local Boards? A.—There is not.

Q.—You think there is no doubt about that, that if they have any functions they are suspended? A.—They really never had any.

Q.—Perhaps they were only for advertising purposes? A.—Well, they were exceedingly useful in the early years in that way.

Q.—Then there are provisions governing the transfer of shares which I won't trouble about. Now I come to the provision with respect to proxies, and I want to ask you a question or two about that. By-law 26. "In case any subscriber to the Guarantee Fund shall desire to vote by proxy at any special, general or other meeting of the Company, the proxy shall be made to a subscriber to the Guarantee Fund only, and shall be deposited with the President or Managing Director at the head office of the Company at least four weeks before the day of such meeting." Do you know where that provision came from? A.—How do you mean?

Q.—As to the length of time before the meeting at which a proxy must be

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deposited in order to enable the subscriber to vote by proxy at the meeting? Four weeks seems a long time—that is what I have in my mind? A.—I can tell you nothing more than here. I was not a member of the Board when this was originally passed.

Q.—Then there is a provision for the directors, in cases which they deem special, dispensing with the deposit of the proxy, which I pass over for the time being. Then there is a provision that all officers holding positions of trust are to give security in such amount and such manner as shall be ordered by the Executive. Have all your officers given security in accordance with that? A.—Yes.

Q.—All of them without exception? A.—Yes, through the Employers' Liability Corporation.

Q.—That is there are policies of insurance issued by that Company? A.—Yes.

Q.—Mr. Tilley points out to me that in 1892 the thanks of the policyholders and guarantors were due to the members of the directors and members of the financial and local boards for their attention to the interests of the Company during the past year? A.—Yes.

Q.—That would be, as you have told me, more in the nature of promoting your interests by getting the Company before the people? A.—Yes.

Q.—Then there is a provision here with respect to loans. I pass over the other provisions. All investments shall be made in the name of the Company. Has that always been so? A.—Yes.

Q.—No investments made in the names of trustees for the Company? A.—Not to my knowledge.

Q.—You do not know of any? A.—I do not know of any.

Q.—The Company itself has purported to hold all its own investments? A.—Yes.

Q.—Then power to accept transfers for the purposes of the loans is conferred. Then there is a provision, by-law 34, that no director or office holder of the Company shall either directly or indirectly borrow any money from the Company. When was that by-law passed? A.—January 31st, 1896.

Q.—Then that has been in force for something over 10 years? A.—Yes.

Q.—Has that by-law always been obeyed since it was passed? A.—Absolutely.

Q.—There has been no loan to any office holder or director of the Company by the Company in ten years? A.—None whatever.

Q.—The by-law does not go further and prohibit purchasing from or selling to a director or office holder. Have you had in 10 years instances of that? I will go into that more in detail hereafter? A.—I can answer now, none.

Q.—You have never bought from a director or office holder and you have never sold? A.—Never.

Q.—Then there is a provision for safe keeping of securities and so on. Then there is an interpretation clause making the Board of Directors the final and conclusive judge of the interpretation of these by-laws and their practical application. Have you ever known the Board to have to interpret these by-laws against the contention of any member? A.—No not within my recollection.

Q.—Then there is a general provision for repeal. Now those are the by-laws that you are at present working under? A.—Yes.

Q.—Among which are found the by-laws to which special reference has been made. Then your company commenced with a paid up capital of \$60,000? A.—Yes.

Q.—Perhaps it was only \$50,000 at first, but it soon had \$60,000? A.—Yes.

Q.—So long ago that we may start with that? A.—Yes.

Q.—It commenced with a paid up capital of \$60,000 which has never been increased, and a subscribed capital, for so many years that we need not go behind them, of \$300,000? A.—Yes.

Q.—That is the subscribed capital upon which 20 per cent. has been paid. Then in the information which you have furnished us I do not find in the earlier years any pronounced movement in your capital stock, your guarantee fund; upon the whole they seem to have been held by people or they seem to have been purchased largely by people who held them as an investment. Then Mr. Macabe rather increased his holdings during his lifetime? A.—Yes.

Q.—Very considerably? A.—Yes.

Q.—Do you remember how much he held at the time of his death? A.—\$86,000, upon which \$17,200 was paid.

Q.—Do you remember what he held when the Company was first formed? A.—I do not remember that.

Q.—I see that in 1891 he held \$21,500? A.—Yes.

Q.—And that holding was increased at the time of his death to \$86,000? A.—Yes.

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Q.—You have furnished us here with a statement showing the movements of your stocks and Mr. Macabe seems from time to time to have picked up stocks as they were on the market? A.—Yes.

Q.—Until he finally increased his holding to the large holding we have spoken of? A.—Yes.

Q.—His estate is much the largest stockholder? A.—Yes.

Q.—But no single stockholder holds control of the Company? A.—No.

Q.—Do you yourself hold stock, Mr. Goldman? A.—Yes.

Q.—What is your holding of stock? A.—I have \$12,000 at the end of the year.

Q.—That is at the end of 1905 you had \$12,000? A.—Yes.

Q.—Do you know whether Mr. Macabe's stock is in the market at all? A.—No. I had \$14,000 at the end of 1905, upon which \$2,800 has been paid.

Q.—Do you know whether the stock held by Mr. Macabe's estate is in the market? A.—I understand not.

Q.—You have not heard of any option upon that being given to anybody? A.—No.

Q.—You are sure of that? A.—Well, I happen to be one of the trustees of the estate, so I can speak definitely.

Q.—Then you do speak definitely? A.—Yes.

Q.—I was not quite sure that you were speaking with absolute definiteness when you said No first A.—Yes, I will say further, we have no power to do that.

Q.—No power to convert the stock? A.—No, no power to give an option to anyone, because he provided under his will that when it was thought desirable to sell this stock, to part with it, that the then President of the Company was to have the first option.

Q.—That is the position under his will? A.—Yes.

Q.—That whoever happens to be President, when it is thought desirable to sell in the interest of the estate, shall have the first option to purchase? A.—Yes.

Q.—Is a figure named? A.—No.

Q.—Perhaps, Mr. Goldman,—although I do not want to go into matters that are private at all—you would let us see, if you can, not at all for publication, the provision in the will to which you refer? A.—Yes.

MR. PATERSON: It is probated publicly, Mr. Shepley.

MR. SHEPLEY: No doubt it is, and it may not have any significance in this inquiry at all? A.—I will

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bring down a copy of the will after lunch for you.

Q.—Then before I pass to the next head, I think you told me that in respect of this Guarantee Fund—this capital stock I had better call it—nothing except the dividend you have spoken of, which in recent years has been 10 per cent. upon the \$60,000, has ever been paid? A.—No, that is the total amount.

Q.—There has been no bonuses or anything of that sort, to the holders of the Fund? A.—None whatever.

Q.—Now I must ask you next to tell me who were on your Board of Directors during the years that the inquiry reaches over. Can you do that from the material before you year by year? A.—Yes. Shall I read them out or would you rather have a copy prepared?

Q.—What have you there, 1891? A.—Yes.

Q.—Who were the members of the Board that year? The Reporter will take them down? A.—The Hon. Alex. Mackenzie, John L. Blaikie, Hon. G. W. Allan, D. A. Macdonald, Hugh MacLennan, Dr. L. W. Smith, J. K. Kerr, John Morrison, E. A. Meredith, A. H. Campbell, D. MacRae, E. Gurney, Hon. Edward Blake, John N. Lake, Edward Galley, Hon. O. Mowat, B. B. Hughes, James Thorburn, M.D., James Scott, William Gordon, H. H. Cook, M.P., Robert Jaffray, Hon. Frank Smith, William McCabe.

Q.—Before going to 1902 I will have the reporter take down who were on the Executive Committee that year; that would be the President, the Hon. Mackenzie; the Vice-President, Mr. Blaikie, and the Hon. Mr. Allan? A.—Yes.

Q.—The Chairmen of the Standing Committees, would that be Mr. Campbell, Mr. Lake and Dr. Meredith? A.—Yes, and Messrs. Morrison and Kerr.

Q.—Now the Board for 1892, if there was any change in the Board? A.—I will read it and the reporter may check it off to save time. (Reads same list) and Charles Mackenzie.

Q.—Charles Mackenzie seems to be the new name? A.—Yes.

Q.—Then your Executive Committee for that year was the same as the year before was it, with the addition of Dr. Thorburn? A.—Yes.

Q.—Then 1893 please? A.—John L. Blaikie, Hon. G. W. Allan, J. K. Kerr, Hon. G. A. Macdonald, Hugh

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Q.—The Hon. Alex. Mackenzie's name drops out? A.—He had died.

Q.—Who was President that year? A.—John L. Blaikie.

Q.—And the Vice-Presidents were who? A.—The Hon. G. W. Allan and J. K. Kerr.

Q.—And the Executive Committee for that year? A.—The President, Vice-Presidents, Chairmen of the Standing Committees, and Messrs. Morrison and Dr. Thorburn.

Q.—The Chairmen of the Standing Committees would be apparently Mr. Scott, Mr. Lake and Dr. Meredith? A.—Yes.

Q.—And then Messrs. Morrison and Thorburn also were members? A.—Yes.

Q.—Then 1894? I think there was not any change either in 1894 or 1895, but you might just look and see? A.—There is no change.

Q.—No change in 1894 or 1895 I think? A.—No, they appear to be the same.

Q.—The Committees are somewhat changed. Mr. Galley goes on the Auditing Committee? A.—Yes.

Q.—And that seems to be the only change in the Executive? A.—Yes.

Q.—The President and the Vice-President were the same? A.—Yes.

Q.—Then after that the other Committees were dropped beside the Executive? A.—Yes.

Q.—Then what was your Board for 1896? A.—Hon. G. W. Allan, John L. Blaikie, Hon. Edward Blake, E. Gurney, J. K. Kerr, John N. Lake, Wm. Macabe, Hon. D. A. Macdonald, Charles Mackenzie, B. E. MacRae, Sir Oliver Mowat, James Scott, Sir Frank Smith, L. W. Smith, James Thorburn.

Q.—The President Mr. Allan? A.—No, Mr. Blaikie.

Q.—The Vice-Presidents Mr. Allan and Mr. Kerr? A.—Yes.

Q.—And the Executive Committee the President, the Vice-Presidents, Mr. Macabe, Dr. Thorburn, Mr. Scott, Dr. Smith and Edward Gurney? A.—Yes.

Q.—No other Committees? A.—No.

Q.—Then 1897, was there any change in the Board? Does Mr.

Scott's name disappear that year? A.—There are one or two changes. I think Mr. Scott died in the meantime. Three are out, namely Sir Oliver Mowat, Mr. James Scott and the Hon. D. M. Macdonald. The new ones are Hon. J. R. Gowan, E. A. Meredith and James Kerr Osborne.

Q.—The President and Vice-President are the same? A.—Yes.

Q.—And the change in the Executive Committee was the substitution of Sir Frank Smith for James Scott? A.—Yes, there were two out, Hon. Edward Blake and Charles Mackenzie.

Q.—Were two more put on? A.—No.

Q.—The number was decreased then? A.—The number was reduced.

Q.—Sir Frank Smith became Vice-President in that year instead of Mr. Kerr? A.—Yes.

Q.—The Executive Committee consisted of the President Mr. Allan? A.—No, that year after the Annual Meeting, the Hon. G. W. Allan and Mr. Kerr were re-elected Vice-Presidents, but Mr. Kerr declined the election and Mr. Frank Smith was elected.

Q.—Then the President, Mr. Blaikie, the Vice-Presidents Mr. Allan and Mr. Frank Smith, Mr. Kerr, Mr. Macabe, Dr. Thorburn, Mr. Gurney and Dr. Smith were the Executive Committee? A.—Yes.

Q.—Then in the next year 1899? A.—It was the same with the exception of E. A. Meredith.

Q.—He died, did he? A.—Yes.

Q.—And no person elected to take his place? A.—No.

Q.—Then the President and the Vice-Presidents were the same as the year before? A.—Yes.

Q.—And the Executive Committee was the same except that Mr. Osborne took Mr. J. K. Kerr's place on the Executive Committee? A.—Yes.

Q.—Was Mr. Kerr still a member of the Board? A.—No.

Q.—Then there were two changes? A.—In 1899 J. K. Kerr and Meredith are out.

Q.—Mr. Kerr was not on the Board, Mr. Meredith dropped out, the President and Vice-President were the same as in 1898 and the change in the Executive Committee was that Mr. Osborne took Mr. Kerr's place? A.—Exactly.

Q.—Then the change in 1900 was that Sir William Meredith came upon the Board? A.—Yes.

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Q.—And there was no change in the Executive Committee in 1900 at all? A.—No.

Q.—Then in 1901? A.—John N. Lake and Sir Frank Smith are out.

Q.—The President was still Mr. Blaikie, the Vice-Presidents were Mr. Allan and Sir Wm. Meredith? A.—Yes.

Q.—Who took the place of Sir Frank Smith? A.—Yes.

Q.—And the Executive Committee was the same with the substitution of Sir Wm. Meredith for Sir Frank Smith? A.—Yes.

Q.—Mr. Paterson points out to me a list that he has in which he makes Sir Wm. Meredith come on in 1899 instead of 1900. He may have been elected at a by-election on Sir Frank Smith's death. We will pass that for the present. Then in 1902? A.—Allan dropped out then.

Q.—You did not elect anybody in the Hon. Mr. Allan's place? A.—No.

Q.—Then the Board in 1902 was the same as in 1901 except that the Hon. Mr. Allan dropped out by death? A.—Yes.

Q.—Then your President that year was Mr. Blaikie again? A.—Yes.

Q.—Your Vice-Presidents were who? A.—Dr. Thorburn and Sir Wm. Meredith.

Q.—Then your Executive Committee would be the same as before with Mr. Allan out? A.—Yes.

Q.—Then in 1903 no change in the Board and no change in the Executive Committee or in the President and Vice-Presidents. That seems to be right? A.—Yes.

Q.—Then 1904? A.—Goldman in place of Macabe.

Q.—That year Mr. Macabe died and you took his place? A.—Yes.

Q.—Then the Presidents and Vice-Presidents remained the same but the Managing Director was yourself instead of Mr. Macabe on the Executive? A.—Yes.

Q.—Then in 1905? A.—No change.

Q.—Did not Dr. Thorburn die that year? A.—He died during the year.

Q.—Then Dr. Thorburn died in June of that year and Mr. Gurney took the Vice-Presidency in his place? A.—Yes.

Q.—And the Executive Committee was the same as the year before with that exception and with the exception that Mr. MacRae was added? A.—Yes.

Q.—Who is Mr. D. MacRae? A.—He lives at Guelph.

Q.—Then in 1906, the present year? A.—Smith is out.

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Q.—Dr. Larrat Smith died and who was elected in his place? A.—There are four new directors that year.

Q.—Who are the four? A.—W. K. George, M. J. Haney, John N. Lake and Dr. J. D. Thorburn.

Q.—Dr. J. D. Thorburn, I think, took his father's place as Medical Director? A.—Yes.

Q.—Then the President and Vice-Presidents were the same as before? A.—Yes.

Q.—And the Executive Committee has had added to it Mr. Haney? A.—Yes.

Q.—Then the only change since that I think is the resignation of Sir Wm. Meredith? A.—Yes.

Q.—That took place in April last? A.—Yes.

Q.—Who was put on the Executive in his place? A.—Mr. Lake.

Q.—Now that is the composition of the Board and the Executive Committee during the years we are enquiring about? A.—Yes.

Q.—Now you were Secretary during Mr. Macabe's lifetime? A.—Yes.

Q.—As Secretary had you anything to do with the business policy of the Company? A.—No.

Q.—Who was in control of that virtually? A.—Mr. McCabe.

Q.—I believe Mr. McCabe was the founder of the Company in a sense; he took the initiative in bringing the Company into existence. Do you know how that was? A.—He was the first Managing Director or General Manager.

Q.—You say that he virtually controlled the business policy of the Company during the time he was Managing Director? A.—Yes.

Q.—Always acting, I suppose, under the control of his Board? A.—Yes.

Q.—Then you stepped into his shoes after his death, and did you then become as he was, in control of the business policy of the Company? A.—Not to the same extent that he had been.

Q.—Why not? Because you had not worked into it yet? A.—No.

Q.—Were you more subject to control than he was by the Board? A.—I think that is the way to put it.

Q.—Perhaps you were not so ready or are not so ready to take the initiative as he was? A.—Perhaps not.

Q.—You do, from time to time, consult your Board and your Executive Committee, as you are required to do by the by-laws? A.—Yes.

Q.—Have you taken much responsibility upon yourself that you had an

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opportunity of sharing with your Executive Committee and with your Board, or have you kept yourself strictly within the limits of the by-law defining your powers? A.—I think I have kept within the by-law.

Q.—We will look at that again. The provision in the by-law is that the Managing Director under the direction of the Board shall be charged with the supervision and control of the general business of the Company. He is also to discharge all such duties as the nature of his office shall require or the Board may from time to time direct. That you think you have kept within since you have been elected Managing Director? A.—I think so.

Q.—Now I will come next to another subject and that we can take up quickly I think. You have furnished us with a statement from 1891 down showing the remuneration to officers and directors together with their travelling expenses? A.—Yes.

Q.—In 1891 the President, the Hon. Alex. Mackenzie, was receiving a salary of \$1,500 and director's fees at \$52? A.—Yes.

Q.—Mr. Blaikie, the Vice-President, had a salary in that capacity of \$200 and as Chairman of the Executive another \$300? A.—Yes.

Q.—He also got \$52 of director's fees? A.—That is correct.

Q.—Then the Vice-President—Allan—got a salary of \$100? A.—Yes.

Q.—And his director's fees were somewhat smaller? A.—Yes.

Q.—We need not take up these small details. The Chairman of the Finance Committee got \$100 and some fees. Mr. McCabe, the Managing Director had a salary of \$7,600 and he had some small travelling expenses besides; you had a salary of \$2,250 and some small travelling expenses; Dr. Thorburn had a salary of \$750, some small travelling expenses and some small director's fees; and the other directors ranged in fees only, without salaries, from \$60 down to \$4. That seems to be right according to the Statement that has been furnished? A.—Yes.

Q.—Then in 1892 there seems to have been some alteration in the President's salary. Mr. Blaikie only got \$1,000 as against the \$1,500 which had been paid his predecessor. The two Vice-Presidents only \$200 each? A.—Yes.

Q.—The Chairman of Finance \$100. Then Mr. McCabe seems to have gone up from \$7,600 to \$8,109.15 besides travelling expenses. Do you know

how that odd sum is reached? A.—Yes, I believe his remuneration depended upon an increase in the resources of the Company.

Q.—Was there a contract with him? A.—I believe there was.

Q.—Do you know where it is? A.—I do not.

Q.—Who does know? We have been anxious to get that and so far have not succeeded in getting it? A.—Well, we must try and find it for you.

Q.—That will explain the fact which applies to a good many of these years, that Mr. McCabe's salary is expressed in odd figures? A.—Yes.

Q.—Then I see your salary was slightly increased that year from \$2,250 to \$2,500? A.—Yes.

Q.—Dr. Thorburn's remains the same and the directors get small sums for directors' fees. Then the Vice-Presidents get \$100 more? A.—In 1893.

Q.—Getting \$200 instead of \$100 as in the preceding year. The President was the same, the Chairman of the Finance Committee another \$100 and Mr. McCabe's salary rises to \$8,729.11, your salary remains the same, Dr. Thorburn's is raised to \$1,000. Those are the only salaries that the directors received? A.—Yes.

Q.—And the fees are as before substantially. Then the only change in 1894 seems to be that Mr. McCabe goes up to \$9,474.95 besides his travelling expenses. The others remaining the same? A.—Yes.

Q.—Then in 1895 the Chairmen of the Finance Committee and Audit and Agency Committees receive \$100 each; there is no \$200 salary paid to Chairmen, the Vice-Presidents and President remain the same, the Secretary the same, the Medical Director the same, and the Managing Director gets up to \$9,979.02 with travelling expenses and director's fees. Then in 1896 the President's salary is doubled, raised from \$1,000 to \$2,000. How did that come about? A.—I suppose it would be by by-law.

Q.—What I was more concerned with was the justification for it. You would probably know enough about the Company at that time, Mr. Goldman, to speak. If not, I will not waste time over it? A.—Well, I did not attend the Board meetings in those days. It would be in the usual course, an increase in business.

Q.—An increase in duties? A.—Yes.

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Q.—Not as between 1895 and 1896, the duties would not double in that time? A.—No, but the remuneration might be too small before that.

Q.—Then I see that Mr. Allan gets not only the \$200 of Vice-President but also \$300 as Chairman of the Executive. That gives him \$500 altogether and the other Chairmanship is abolished. Mr. Kerr gets the same, and your salary was raised to \$3,000 that year; Dr. Thorburn's remains the same and Mr. McCabe's is \$10,916.68 besides director's fees and travelling expenses. The following year the only change is that Dr. Thorburn is raised to \$1,200 and Mr. McCabe that year gets \$11,354.11 besides director's fees and travelling expenses. Then in 1898 your salary is raised to \$3,250, Dr. Thorburn's to \$1,450 and Mr. McCabe's now appears at \$11,489.13 in addition to director's fees and travelling expenses. In 1899 the only change seems to be in respect of Mr. McCabe whose salary for that year appears to be \$12,958.32 besides director's fees and a very considerable sum for travelling expenses \$863.17. Do you know about that, how in 1899 the travelling expenses were so much, both for him and for yourself by comparison? A.—Well, I think we were travelling more, looking towards the United States that year.

Q.—Then the only change in 1900 is in Mr. McCabe's salary, which that year appears at \$14,595.13, besides director's fees and travelling expenses. Then in 1901 Mr. Allan's \$500 is reduced to \$250 and your salary is raised \$750 so that it is now \$4,000. You see that? A.—Yes.

Q.—Dr. Thorburn's is raised from \$1,450 to \$2,000 and Mr. McCabe's seems to take a more rounded shape, it is \$14,625 exactly, besides fees and travelling expenses. Do you know whether that was fixed by by-law as the salary, independently of the resolution? A.—No, I understand it was increased according to the agreement.

Q.—What I have in my mind is that odd sums were produced by applying the agreement of the previous year? A.—Yes.

Q.—And this seems to be a round instead of an odd sum? A.—Yes.

Q.—It may of course be just a coincidence? A.—Oh, yes I think so.

Q.—Then in 1902—I think that can hardly be a coincidence; Mr. Blaikie's salary remains the same; Dr. Thorburn has then become Vice-President and Chairman of the Executive, in those two capacities he gets \$500 in

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addition to his \$2,000 as Medical Director. Your salary remains the same, Sir Wm. Meredith's is the same but Mr. McCabe's goes to \$15,000. That does not look as if that was a coincidence? A.—That was the maximum.

Q.—You say that under the terms of the agreement he had then reached the maximum? A.—Yes.

Q.—And his salary was fixed at \$15,000? A.—Yes.

Q.—Then 1905 produces some irregular looking figures which I have no doubt you will explain to me without difficulty. Mr. Blaikie's salary has become \$3,333. Dr. Thorburn \$2,666.64. The Vice-President and Chairman of the Executive, Sir Wm. Meredith has increased to \$400, Mr. McCabe's salary for four months is put down at \$5,000 and yours, as Secretary and Managing Director, extending over the year \$7,666.60. Then there appears a new Secretary, Mr. Taylor, with eight months' salary at \$1,600 and the Superintendent of Agencies appears in this list at \$2,400? A.—That was for eight months I think.

Q.—Was that for eight months also? A.—I am not sure about that.

Q.—What was the cause of the irregular figures in the salaries of the President, Dr. Thorburn and yourself? A.—Mine of course, would be a broken period, \$4,000 for a certain number of months, and \$8,000 for the other months.

Q.—Now then I want this to go upon the record and I will read it with the permission of the Board? This is dated the 13th May, 1903. "A special committee consisting of J. L. Blaikie, President, Dr. Thorburn and Sir William Meredith, Vice-Presidents, and Messrs. Gurney and Osborne, to consider the remuneration to be paid to the whole staff of the Company, met to-day, and after giving the matter most careful consideration beg to make the following recommendations to the Board: That instead of paying the directors for attending the Board and Committee Meetings by way of fees, the directors be paid the sum of \$2,000 per annum, to be divided among them as they may agree and decide upon among themselves. That in view of the time, care and attention bestowed upon the business of the Company by the President and Vice-Presidents, the remuneration the President is being paid is not considered adequate for such services. That the salary of the President should be \$4,000 and that the Vice-Presidents should each receive \$500 per annum, but that no

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change should be made in the salary of the Chairman of the Executive which is now \$300 per annum.

That in view of the increased work of the Medical Department the salary of the Medical Director should be \$3,000.

That the salary of Mr. Goldman, Managing Director, should commence at \$8,000, increasing annually by \$1,000 until it reaches \$12,000, when the matter will be open for further consideration.

That the salary of Mr. Taylor, Secretary, be \$2,400, and that of Mr. J. N. Lake \$750 per annum. Then come the salaries of members of the staff. The Committee further recommend that in view of the extra services rendered by Mr. Goldman during the last few months, when he was Secretary of the Company, he be paid a bonus of \$1,000."

That recommendation was received and adopted. That is the history of that matter. Then applying those resolutions to the broken periods between the beginning of the year and Mr. McCabe's death upon the one hand, and his death and the end of the year on the other hand will give these results? A.—Exactly.

Q.—You will perhaps also be good enough to let me have a copy of the agreement with yourself, or is there one? A.—This is all I have.

Q.—Mr. Tilley calls my attention to this, with reference to the agreement with Mr. McCabe, on the 31st Jan., 1896, on a Report which was adopted, this is stated, "The report was submitted by the said Special Committee. Duplicate original in original Minute Book." So that that ought to be easily found. And the Committee recommended that the existing engagement should be continued? A.—Yes.

Q.—You will find that for me at all events. Then in 1904 I see your salary was \$8,666.64? A.—Because it ran from the 1st May.

Q.—That was the additional \$1,000 a year? A.—Yes, and the broken period.

Q.—Then Mr. Taylor's salary is increased according to the resolution, and then Mr. McConkey, who was superintendent of agencies, gets \$3,866.64 in addition to \$1,295.55 for travelling expenses. Then Mr. McConkey's salary has gone up to \$4,000 in 1905. Mr. Taylor's has gone up to \$2,700 in accordance with the resolution. Yours to \$9,583.31 in accordance with the resolution. And all these salaries are in

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accordance with the terms of the resolution? A.—Exactly.

(Adjourned to 2 p.m.)

—Resumed at 2 P. M. May 21st, 1906.

—Examination of Mr. Goldman continued:

MR. SHEPLEY: Q.—You give me now what seems to be the report of a Special Committee of the Board meeting on the 31st January, 1896. This report is signed by Mr. Blaikie, Mr. Allan, and Mr. Kerr, that is upon the subject of Mr. McCabe's salary—you have found this since the adjournment? A.—I found it among his private papers.

—Report of Special Committee referred to read, copy to be marked as Exhibit 130.

Q.—This in quotation marks is a statement of what the arrangement was with Mr. McCabe as General Manager in 1879 up to now? A.—It is the first time I have ever seen that.

Q.—You do not know anything except what you see here with regard to that arrangement? A.—It is the first time I have seen it.

Q.—Do you know of any record which will throw any light upon this? A.—I do not.

Q.—Have you any doubt of its authenticity? A.—None whatever.

Q.—This itself is dated 1896? A.—1879 would be two years before we commenced business.

Q.—Mr. McCabe's salary apparently was originally \$2,500 per annum, and it was not to be altered until the surplus amounted to \$25,000 over and above the guaranteed fund which was \$300,000? A.—Yes.

Q.—And then it was to be re-adjusted and made \$5,000 per annum to run from the beginning? A.—It would be \$25,000 over \$60,000 paid up.

Q.—Then it was to be \$5,000 per annum, and that arrangement was to date back from the beginning according to this, "To be increased when the assets amount to \$200,000 exclusive of the guaranteed fund at the rate of one-quarter of one per cent. of such assets, and at the same rate upon the assets for the time being of each subsequent increase of assets of \$100,000; provided," etc. See if you understand that in the same way I do; there was no alteration in the \$2,500 per annum until there was a surplus of

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\$25,000 as provided there; then it was to be made \$5,000? A.—Yes.

Q.—And then there was to be no further alteration until it had reached \$200,000? A.—Until the assets had reached \$200,000.

Q.—Over and above the \$60,000? A.—Yes.

Q.—Then it was to be increased at the rate of one-quarter of one per cent. of such assets? A.—That would be my understanding of this document.

Q.—And when another \$100,000 is added then the salary would be increased one-quarter of one per cent? A.—Whenever \$100,000 was added to the assets, yes.

Q.—Then there would be another one-quarter of one per cent. of those assets added to the salary? A.—Yes.

Q.—And then when that amounted to \$10,000 it was to be a matter of further consideration? A.—Yes.

Q.—Then the report proceeds: "Having regard to the success of the said company," etc. (Reads) I want to look at that to see whether we have construed that as it was construed by the parties during the period. Take 1892 for instance, the salary was \$8,109.15; in 1893 it was \$8,729.11; in 1894 it was \$9,474.95; in 1895 \$9,979.02; and in 1896 \$10,916.68? A.—That is correct.

Q.—That would seem to indicate that it was not a quarter of one per cent. on round additions of 100,000, but a quarter of one per cent. upon the actual additions; do you see what I mean? A.—Yes, apparently so.

Q.—Can we by an examination of your yearly surplus figure that out, and I will have that done if you think we can? A.—No, it would not be the yearly surplus. it is the yearly increase of assets.

Q.—That is shown in your reports from year to year? A.—Yes, that will be shown in the Government reports.

Q.—And that could be figured upon? A.—Yes

Q.—That would seem to be the way it was? A.—Yes.

Q.—"The Committee is of opinion that Mr. McCabe is entitled to further increase" (Reads balance of exhibit 130). The operative part of that report dealing with the condition of things from 1896 down would seem to indicate that what you were saying a moment ago was correct, that it was a quarter of one per cent. upon the actual increase in assets? A.—Yes.

Q.—Not awaiting the arrival of \$100,000? A.—No.

Q.—Were there any other matters that were noted down for you to get during the recess? A.—Just those two.

MR. SHEPLEY: I should say to the Board that Mr. Goldman has shown me a copy of Mr. McCabe's will, and so far as that point is concerned no light is thrown upon anything that is the subject of this enquiry at all.

Q.—Now, as to another subject; we have seen by the by-laws, by your acts of incorporation and by-laws, the rights which participating policyholders have in respect of voting? A.—Yes.

Q.—To what extent has that right on the part of policyholders been exercised in your own experience? A.—Very moderately.

Q.—Do the minutes of your meeting show what policyholders entitled to vote have been present at the annual and other general meetings? A.—It shows the names of the persons present, but I could not tell which of them were policyholders.

Q.—That could I suppose be found by consulting the guarantee fund holders at the date of any particular meeting, that could be found of course? A.—Yes.

Q.—Do you take any means when you have a general meeting and there are people there to ascertain whether they have rights to vote apart from being the holders of this guarantee stock? A.—Yes.

Q.—What do you do? A.—It is announced that the poll is open and they have the right to vote.

Q.—What I want to find out is what steps you take to ascertain that the people there are policyholders who have the right to vote? A.—We would verify that by reference to our records.

Q.—After the meeting was opened? A.—Yes.

Q.—You would verify the position of those who were present as policyholders? A.—Yes.

Q.—Did you ever have such a thing as a policyholder being present who has no right to vote because he is not participating, or because he has not \$5,000 of insurance? A.—Each \$1,000 is entitled to vote. The old Act was \$5,000.

Q.—Each \$1,000 entitled to participate has a right to vote? A.—Yes.

Q.—Do you verify by reference to your records to see whether a person there has a right to vote under that clause in the by-law? A.—Yes.

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Q.—That is always ascertained? A.—Yes.

Q.—They have taken a very moderate part, you say; have there been occasions upon which policyholders have actually voted? A.—I do not remember any.

Q.—You do not remember any case in which policyholders have voted as policyholders? A.—No.

Q.—Has there ever been an instance in which a person not a holder of stock in the guaranteed capital has been elected to the Board? A.—Yes.

Q.—What members of the Board have been policyholders simply without being holders of guaranteed stock? A.—One of our most valued directors we have just lost, he has just resigned, Sir William Meredith, was simply a policyholder.

Q.—He had not any share in the guarantee stock? A.—None at all.

Q.—Was there any other instance? A.—W. J. K. George is a policyholder only; M. J. Haney.

Q.—Elected last year? A.—Dr. J. B. Thorburn.

Q.—He was elected since his father's death? A.—Yes.

Q.—Are those the only ones? A.—I think so.

Q.—The elections of directors and other matters that have been disposed of at the general meetings have been disposed of, speaking substantially, always upon the unassisted vote of the holders of stock? A.—I do not quite follow you.

Q.—You have told me you do not know any instance in which there has been any part taken in any election by people who are policyholders simply? A.—That is correct.

Q.—Then it follows, does it not, that the elections must have been determined always by the voice of those who are holders of stock? A.—Yes.

Q.—Do your policyholders ever give proxies? A.—No.

Q.—You do not know any instance in which a policyholder has voted by proxy? A.—They have no power to give proxies at all, they have to vote in person.

Q.—You were not responsible I suppose for that by-law yourself, that was before? A.—I had nothing to do with it.

MR. PATERSON: Is that a by-law or statute?

MR. SHEPLEY: There is no prohibition whatever against proxies in the statute; that is a matter of internal regulation.

Q.—What you tell us is that so far as your company is concerned it has

never facilitated the voting by policyholders by means of permitting proxies? A.—No. I think you read that out this morning; it is on page 10, the amendment to the Act of 1882; it is covered by the Act.

Q.—Yes; this is a repeal of the 11th section of the Act, and the following inserted in lieu thereof: "At all meetings of the company each subscriber to the guarantee fund shall be entitled, either in person or by proxy, to five votes for every one hundred dollars subscription, all calls being paid, and every holder of a participating policy in the company, upon which all premiums due have been paid, shall have one vote in person for each one thousand dollars' insurance held by him; no proxy may vote unless he is himself qualified to vote at such meeting." It is upon the language of that you say what you have said? A.—Yes.

Q.—"Every holder of a participating policy . . . upon which all premiums due have been paid, shall have one vote in person?" A.—We specially noted that this morning.

Q.—At all events policyholders so far as your company is concerned have never had any of the advantages flowing from the right to vote by proxy? A.—No.

Q.—Do you send notice to all the policyholders who appear to be entitled to vote at your annual meeting? A.—We do not.

Q.—Do you send to the holders of the guaranteed capital? A.—We do not.

Q.—How do you announce the meetings of your company? A.—By advertisement. You will see it on page 5 clause 9 of the Act.

Q.—"A general meeting of the company shall be called once in each year . . . after not less than ten days' notice in one or more newspapers published in the city of Toronto, at which meetings a statement of the affairs of the company shall be submitted," etc. Have you always contented yourselves with the ten days' notice in the one newspaper, or have you published it in more than one? A.—It has varied.

Q.—Sometimes one and sometimes more than one? A.—Yes, sometimes three.

Q.—And there have been no notices mailed? A.—None.

Q.—Are you able to tell me, say at the end of 1905, the possible shareholders' vote compared in volume with the possible policyholders' vote—such

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a statement as that could be prepared of course? A.—I can tell you roughly; roughly the policyholders as a whole would have about two and a half times the votes of the shareholders greater.

Q.—I think in your answers to the questions that have been asked, you have stated the guarantee fund holders themselves do not attend in person to any considerable number? A.—No.

Q.—Do they very generally give proxies? A.—Yes.

Q.—Do they all give proxies, would you say? A.—No, not all.

Q.—What proportion of the whole sixty thousand? A.—I should think about 75 per cent.

Q.—Who usually holds the proxies? A.—The President, Vice-President and Managing Director.

Q.—Have you a form of proxy? A.—No, we have not a printed form.

Q.—How are the proxies usually obtained from the shareholders? A.—By sending to them.

Q.—Sending to them in advance of each meeting, or do you have a general proxy? A.—We have a general proxy.

Q.—And you say about 75 per cent. of your stockholders have given to the President, one of the Vice-Presidents or the Manager this enduring proxy? A.—Yes.

Q.—And that vote is always polled at the annual meeting? A.—Yes.

Q.—Do you as a matter of fact usually find at your annual meetings anybody present except those who are members of the Board? A.—Yes.

Q.—The 25 per cent. that have not given proxies, what proportion of them would be on hand? A.—You mean of the shareholders?

Q.—Yes? A.—None.

Q.—We will modify that question, that there are no persons at your annual meetings of shareholders, any shareholders in person other than the members of the Board? A.—I think not, I cannot speak quite definitely.

Q.—Your counsel suggests that possibly I have not made the question plain to you, you understand what I am getting at, I want to find out whether there is a personal attendance of shareholders at the meeting apart from the shareholders who happen to be members of the Board and interested in the business. Mr. Barwick calls my attention to the annual general meeting 1902; Mr. Barwick suggests that the attendance shown at that annual meeting indicates that persons were present who were not members of the Board? A.—Yes.

Q.—There is not anything to indicate whether they are holders of stock or shareholders upon the face of it? A.—No.

Q.—Are you able to say how that is, whether they would be either policyholders or shareholders? A.—Yes, I know there are 17 there who are policyholders and not shareholders.

Q.—Are there any shareholders there who are not directors? A.—No.

Q.—Then that answers for the purposes of that specific case the question; as I understand you to say before my learned friend intervened, you would not expect to find shareholders present in person at any of these meetings beyond those who are themselves members of the Board? A.—Not as a rule.

Q.—That is near enough; if they did not take interest enough to give proxies they probably would not take interest enough to come. Do you know any case in which a proxy was permitted to be made use of which had not been filed four weeks before the meeting? A.—Yes.

Q.—You had no more than one case? A.—I know of one case.

Q.—What case was that? A.—At our last annual meeting Mr. Bengough, a Reporter, presented a proxy and we allowed him to be present.

Q.—Was he a member of your— A.—No.

Q.—From whom had he a proxy, from a shareholder? A.—Yes.

Q.—That was contrary to your other rule that proxies must be held by members? A.—Yes.

Q.—Was that considered a special case? A.—Yes.

Q.—That was the meeting at which there was some considerable discussion? A.—Yes.

Q.—I see you are one of the companies which in two annual payments of \$500 each contributed \$1,000 altogether to certain hospitals? A.—The National Sanitarium Association.

Q.—It was the same institution? A.—Yes.

Q.—1903 there is, "Free Hospital for Consumptives, Gravenhurst," and 1904, "The National Sanitarium Association, Toronto." \$500 on each occasion, or a total of \$1,000 was contributed; and in 1900 you contributed \$1,000 to the Ottawa and Hull Fire Relief Fund; are those the only subscriptions of any kind to charitable or other like purposes that your company has ever made to your knowledge? A.—Within my knowledge.

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Q.—You do not know of any other?
A.—No.

Q.—I do not think there was any correspondence with the Department about the Ottawa and Hull Fire Relief Fund? A.—None whatever.

Q.—But there was about the other?
A.—We had it before us in 1905 and communicated with Mr. Fitzgerald on the matter.

Q.—That is my recollection, that you had some correspondence with the Department on the subject; what was the result of that? A.—He stated it was outside of our power to make the grant.

Q.—Did you do as one of the other companies did, did the directors who had authorized it make it good, or does it still remain a grant by your company? A.—It still remains a grant by our company.

Q.—On what ground do you justify that class of payment, or do you justify it? A.—Yes.

Q.—On what ground? A.—Benefit to our policyholders.

Q.—Expand that a little so that we will know just what you mean by it? A.—We have had two policyholders at Gravenhurst, both of whom have received great benefit from the treatment, and the institution can be maintained only by grants, and the directors therefore thought that it was a proper institution for a life insurance company to assist.

Q.—I suppose policyholders you had who went there were policyholders who paid their way there, and paid their premiums too, I suppose? A.—Yes, they certainly paid their premiums.

Q.—You do not know perhaps whether they paid their way at the Sanitarium or not? A.—I have not enquired.

Q.—You say they were benefited, went on paying their premiums, and so you thought speaking generally it was in the interest of the company that you should recognize these institutions by grants? A.—The directors thought that.

Q.—The questions that have been addressed to your company are I suppose exhaustively answered upon that subject by the answer that is made there; this \$1,000 and these two five hundreds; there is nothing else of that class? A.—Not that I am aware of; there might be some small thing.

Q.—You do not know anything paid out for purposes of promotion? A.—Absolutely nothing.

Q.—Or for political purposes? A.—No.

Q.—Has your company ever promoted the formation of subsidiary companies for the purpose of dealing in securities or anything of that sort? A.—Never.

Q.—Has your company ever taken stock in any trust company or any securities company? A.—Never.

Q.—This I understand to be a copy of each of two different classes of agreement which you make with agents? A.—Yes.

Q.—These I understand are copies of agreements which are actually on foot? A.—Exactly.

Q.—And are all the agents employed by your company employed upon agreements which are in one or other of these forms? A.—Yes.

Q.—Then what is annexed to it gives any variation in the commission? A.—Yes.

Q.—The first one which is dated is November, 1904, and with your Woodstock Agent, is the employment of an agent for the County of Oxford? A.—Yes.

Q.—Then your commissions differ very largely as between participating and non-participating policies? A.—Yes.

Q.—Whole life, or twenty or more payments—you have no objection to this being put in of course? A.—Certainly not.

Q.—Then you require a surety bond in a guarantee company for a certain sum of money, and then you require a certain increment to the business? A.—Yes.

Q.—In order to justify payment of these commissions? A.—Yes.

Q.—That is one form which we will have put in. Then the other is in connection with the Provincial Agent; that is the 23rd November, 1904, it was one of your Provincial Managers? A.—Yes.

Q.—Does your Provincial Manager employ his own staff? A.—Yes.

Q.—And he pays them or remunerates them out of the commissions which you allow him? A.—Yes.

Q.—You have no direct connection with them at all in the way of payment? A.—No.

Q.—The Provincial Manager earns so much commission, and out of that he has to take care of his staff? A.—Yes.

Q.—And meet all his expenses? A.—There are some allowances sometimes.

Q.—You allow him certain commissions on renewals during the continuance of the agreement, and then you

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allow him certain commissions in respect of business already in force in the territory if the cash renewals go through his agency? A.—Yes.

Q.—In consideration of which you say he has to pay for his rent, clerk hire, postage, exchange, etc. Have you any other agents whom you directly employ who are upon different plans than those indicated in these two agreements? A.—Only as set forth in this list.

Q.—These are the only variations in the commissions? A.—Yes.

Q.—There are no variations otherwise in the terms in the contract you make with your agents? A.—There are some men on salary.

Q.—And that will be shown here? A.—Yes.

Q.—But the operative parts of the contract, apart from the method of remuneration, are the same as in these that have been shown? A.—Yes.

File containing copies of agreements with agents and with Provincial Manager marked as Exhibit 131.

Q.—Then this is a statement of what you have paid out to agents during the year 1905 by way of commissions, salaries, travelling expenses and so on? A.—Yes.

Q.—I see you have an officer here called a State Manager, is that the man who occupies the same position in United States that a Provincial Manager does here? A.—Yes.

Q.—In the case of such a manager as a State Manager or Provincial Manager you have grouped under the name of that manager his staff? A.—Yes.

Q.—You are not concerned with what he pays them? A.—No.

Q.—He pays them out of the sums that appear here as commissions and so on? A.—Yes.

Q.—Manager, Eastern Ontario—I would like you just to run through this with me, for instance what State is this? A.—Washington.

Q.—And this? A.—Manitoba.

Q.—And this? A.—Twelve or fifteen Counties.

Q.—Is Toronto the boundary? A.—No, Kingston. That is Sherbrooke, the eastern townships.

Q.—And this? A.—New Brunswick, and that Nova Scotia.

Q.—And this? A.—London and west; Hamilton and district. Illinois. New York State. Quebec and Counties. Dutton, Regina and district and territories. Michigan. Baltimore. Prince Edward Island. British Columbia. Montreal and district. Owen Sound and County. Ottawa

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and Counties. Peterboro and Counties. Brantford, Montreal.

Q.—And these are local agents? A.—Yes.

Q.—What is this, sundry agents, re-insurance and brokers? A.—That would be where you have brokerage business coming directly to the Head Office.

Q.—Of what nature? A.—That would be some local agents, and also where business is brought direct to the head office, not by a regular agent of the company.

Q.—Do you pay commissions in your company if a man walks into your head office and wants to insure his life? A.—No.

Q.—Nobody gets a commission for that sort of business? A.—Unfortunately they do not come.

Q.—If business comes into the head office otherwise than by your regular agents, regularly appointed, you allow commission? A.—Yes.

Q.—To the person bringing the business in? A.—Yes.

Q.—And that is what you have in view in this item? A.—Yes.

Q.—Sundry agents, re-insurance and brokers—that covers sundry agents, re-insurance—you pay commissions when you re-insure? A.—Yes.

Q.—And you pay commissioners also when you are re-insured? A.—Yes.

Q.—And this “brokers” has that anything to do with investments? A.—No.

Q.—That is all with regard to getting business? A.—Solely.

Q.—Where is this? A.—Galt.

Q.—And this? A.—Toronto. Excuse me; Sundry agents, re-insurance and brokers includes a lot of small regular agents.

Q.—Agents whom you have appointed? A.—Yes.

Q.—And whose business is not sufficiently large to have been spread out here by itself? A.—Yes.

Statement of amounts paid to agents, 1905, marked Exhibit 132.

Q.—Are you aware of what has been described as the pernicious habit of rebating? A.—Yes.

Q.—Does it take place in your company? A.—I suppose there is hardly an agent but what rebates.

Q.—That means it does take place and takes place very extensively in your company? A.—I would not say that.

Q.—There is hardly an agent that does not rebate, that must mean that nearly all the agents do? A.—I am assuming.

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Q.—When you say you are assuming I suppose you know pretty well whether rebating is customary among your agents? A.—I don't know.

Q.—Is it your policy to shut your eyes to it, or have you no means of finding out—you don't know as a matter of fact whether rebating is usually practised by the agents or not? A.—No.

Q.—But you assume it to be? A.—The general indications of the business would indicate that our agents are about as others in that respect.

Q.—When you say the general indications would indicate, what would indicate in the course of your business that your agents are rebating? A.—I refer to the general indications of business, not our company specially.

Q.—Then you find indications which are not peculiar to your company, but which point to rebating? A.—Yes.

Q.—What are they? A.—Supposing we went around this room and ascertained from every gentleman who has a policy on his life whether he paid the first premium in full; that would answer the question.

Q.—You are sufficiently in touch with your policyholders, if I understand, to be aware that upon the whole they do not pay their first premiums in full? A.—No, I did not say that.

Q.—I am trying to get what the indications which you have observed are which enable you to say that they point towards rebating? A.—The conversations I have had with people who are largely insured.

Q.—Do you find your insurance is persistent, or that a good deal of it only accounts for one premium? A.—There is a great deal of insurance on which only one premium is paid.

Q.—Is there a good deal of insurance in which one premium is paid in one company and the premium the next year paid in another company, and so on? A.—I don't know that.

Q.—As an insurance man, not of your own personal knowledge, but from your knowledge as to how these matters are in insurance generally, is there not a good deal of that? A.—I have heard of one man having a large policy in three different years on very advantageous terms, a Toronto gentleman.

Q.—You have heard of such a case as that; the inducement to that of course would be the rebate, at least that is a possible inducement? A.—Undoubtedly.

Q.—Are you yourself opposed to the principle of rebates or are you in favor

of the principle? A.—Of course I am opposed to it.

Q.—Could you stop it if you would? A.—Individually?

Q.—Your company in the case of its own agents? A.—No.

Q.—Why not? A.—Simply we would destroy our agency organization.

Q.—In order to compete with the agents of other companies your agents have to rebate to get business? A.—No, I mean to say if we reduced our agents' commissions down to a certain point they would not get the business.

Q.—That is they would not be able to give rebates? A.—You can put it that way if you like.

Q.—Is not that what you mean? A.—I am not saying they do rebate; you asked me as to the conditions of the business and I am frank enough to tell you that is so, I believe.

Q.—The reduction in the rate of commissions would of course in a sense cut off the possibility of making large rebates? A.—Yes, of making large rebates.

Q.—But if they could not give the large rebates they could not compete with other companies whose agents are giving large rebates, is that what you mean? A.—That might be the condition.

Q.—Is it the condition, are rebates general in insurance business? A.—I should think so.

Q.—Who in your company will know more about that than you do apart from the agents themselves? A.—I don't know that any one would.

Q.—Has there ever been since you became familiar with insurance an attempt on the part of the companies themselves to unite against the practice of rebating? A.—Yes.

Q.—What has been the result of that? A.—There was an attempt some years for the companies to organize under an agreement, and the late Mr. McCabe was very active in that connection, but owing to two or three companies declining to join in the agreement it fell through.

Q.—Leaving everybody to scramble as before? A.—Exactly.

Q.—How long ago was that? A.—I am speaking from memory now, I should think seven or eight years ago, may be more.

Q.—Was that an attempt to form a protection between the companies themselves or was that something the Life Managers' Association was taking

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up? A.—The Life Managers' Association took it up.

Q.—Was there an attempt to get legislation do you know—you do not remember it sufficiently well to speak of that with certainty? A.—No.

Q.—Don't you think the time is about ripe now for the leading Life Associations to get together and try to stop rebating again? A.—I do.

Q.—It can be done, can it not, if the principal life insurance companies are in earnest and take it up in earnest and preserve good faith with each other? A.—It could be tried.

Q.—You do not of course doubt the good faith and the obedience of your agents if you lay down the law to them? A.—If an agreement was entered into, as I suggested one time, and an agent did not live up to it, that agent should be dismissed.

Q.—And somebody put in his place who would live up to it? A.—That follows.

Q.—What are the objections to rebating, what is the evil? A.—The main evil is the lack of stability in the business.

Q.—What other evils are there? A.—It makes the business more costly.

Q.—Is there any other objection; is there an objection from the standpoint of the policyholder who does not get a rebate—is it right that policyholder A should get a rebate while policyholder B pays his full premium at the same age for the same insurance? A.—Well, that does not affect the company, that phase, because the agent receives a certain amount of commission and the company receives its part only, whether the insured pays in full or gets a rebate.

Q.—I quite take it for granted that you are capable of looking at the thing from the standpoint of the policyholder as well as from the standpoint of economy on the part of the company; what do you say to that? A.—I say decidedly that that is an objection.

Q.—You take two men of the same age insuring in the same company for the same amount upon the same plan of insurance, one gets his insurance on an initial premium of \$100, and another has to pay \$200 that cannot be right from the standpoint of the policyholders themselves, can it? A.—It should not be so.

Q.—Are you able to make any computation or give any rough estimate of the extent to which the cost of first year insurance is increased, the percentage by which it is increased, by reason of the rebating? A.—No.

Q.—That you have not figured out? A.—I have not the data for it.

Q.—Because you do not know what rebates have in fact been made? A.—No sir.

Q.—Who would know about the extent to which rebating was customary or usual in your company? A.—I do not think any one would outside of the agents themselves.

Q.—And I suppose one agent won't know what another one is doing in that respect? A.—I think that is so.

Q.—Is there any doubt that there is a good deal of that in the business of your company as well as in the business of other companies? A.—I will answer you frankly; the manager who believes that his agents are free from rebating, and that it exists only in other companies is too innocent to be at large.

Q.—This is a statement you have given us of the premiums received in the last 15 years, and you have divided the premiums into first year premiums and renewal premiums for each year? A.—Yes, I have not seen that before.

Q.—It is furnished to us by your people, and I assume it is accurate? A.—I assume so.

Q.—By adding those two figures together, and the figures in this other sheet which is headed "Annuity premiums" you would get for any one year the total premium income? A.—Yes.

Q.—Your first year premiums have increased from \$68,000 in 1891 to two hundred and thirty thousand odd in 1905? A.—Yes.

Q.—And your renewal premiums from \$274,000 odd in 1891 to \$1,141,000 odd in 1905; and then annuity premiums, that means a single payment received for an annuity in the future? A.—Yes.

Q.—These fluctuate? A.—Very much.

Q.—What is the cause of the fluctuations? A.—Some years you will have two or three applicants for annuities and another year you will only have one for a small amount.

Q.—Is that dependent, because you have experience in it, upon business conditions generally in the community or does it just depend upon chance? A.—No, it is dependent upon one or two companies giving more advantageous terms than others.

Q.—What you mean to say is the cost of an annuity is not uniform? A.—Some companies have better rates for an annuitant than others, the cost

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in one company will be less for an annuity than in another.

Q.—Do those variations fluctuate from year to year, the difference between the rates in the different companies? A.—No.

Q.—You do not I suppose mean to say that in the year when you received \$19,000 your rates were better than other companies in comparison to what they were in 1904 when you only got \$539? A.—No.

Q.—What has the difference in rates to do with the fluctuation in your annuity income? A.—Our annuity income is small compared with many companies, that is what I want to convey to you; and of course there is an element of chance, as you say, about getting an annuitant.

Q.—Annuities are not so freely purchased in this country as they are in the Old Country? A.—No.

Statement of premiums received in the last 15 years marked as Exhibit 133.

Q.—In connection with the business of the North American Life you have from time to time made very considerable extensions into hitherto unoccupied territory? A.—Yes.

Q.—When did you for instance commence, so far as your knowledge of the history of the company is concerned, extending into the Province of Quebec? A.—I should think about 23 years ago.

Q.—That would be about in 1883 or thereabouts? A.—Yes.

Q.—Was that the first extension that you made? A.—No, I think we extended into Nova Scotia and New Brunswick before that.

Q.—You went to Nova Scotia and New Brunswick first you think? A.—Yes.

Q.—What about extension westward, in Canada? A.—Into Manitoba?

Q.—Yes? A.—I cannot say from memory.

Q.—Would it be before or after you went— A.—It would be over twenty years ago.

Q.—And British Columbia? A.—That was later.

Q.—Then speaking generally when did you launch out into the United States? A.—I think about 1899.

Q.—That would be about 7 years ago? A.—Yes.

Q.—You are also insuring now in Great Britain? A.—No.

Q.—You have not gone there yet? A.—No. The minutes will show my report. I was sent over in 1904. The minutes will show my full report.

Q.—At all events you have not made the extension, although you provided for it in your Act of Parliament? A.—Yes.

Q.—Are you doing a very considerable volume of business in the United States? A.—A fair amount.

Q.—How does it compare in volume with your insurance in this country? A.—It is much less.

Q.—How much less? A.—I should think about 40 per cent. of what we get in Canada.

Q.—That is where you will have policies on foot for \$100,000 in Canada you would have only \$40,000 in force in the United States? A.—That is new business, yes.

Q.—I suppose the opening up of new branches, the extension of your business into fresh territory is an expensive matter? A.—Very.

Q.—Very expensive in connection with the first few years of your history in the foreign country or the extended territory? A.—Yes.

Q.—Do you in connection with the extensions of territory or otherwise ever as a matter of policy give special terms to particular people whose insuring with you may be supposed to be an advantage in inducing other people to insure? A.—You mean to the insured?

Q.—Yes? A.—No.

Q.—You do not for instance give special terms to prominent people whose names as insured in your company might induce others to insure with your company also? A.—I do not know of any case, speaking from memory.

Q.—That would not be a matter of head office policy at all events? A.—No.

Q.—Whatever an individual agent might do by way of rebate? A.—No.

Q.—You prepared a profit and loss statement for the year 1905? A.—Yes, our actuarial department prepared it.

Q.—This is prepared upon the same theory as the statement that has been put in before in the case of the other company; the statement is aimed in the first place at ascertaining the margin one way or the other on the first year business? A.—Yes.

Q.—The first item is First year premiums, \$45,558.14—I suppose your actuary can tell us how that is arrived at? A.—Yes.

Q.—The next is a comparison of the actual death losses in that year in respect to those policies as compared with the expected death losses; the ex-

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pected death losses are \$22,550, and the actual death losses, \$805, leaving a margin of \$17,745, which is saved towards paying first year expenses out of that item? A.—Yes.

Q.—That added to the \$45,000 gives a total of margin on the first year premiums for 1905 of \$63,303.14? A.—Yes.

Q.—The amount actually expended in securing that insurance during that year was \$233,486.32? A.—Yes.

Q.—Or a deficit in that respect of \$170,183.18? A.—Yes.

Q.—Let us put that into other language. In 1905 it cost your company \$170,183.18 more than the first year premium income, more than the anticipated loading, providing loading, and more than the saving of death losses, by \$170,000? A.—Yes, not premium income.

Q.—I used the wrong term? A.—Yes.

Q.—That would seem to be nearly 300 per cent. that it cost you more than you had made provision for? A.—No, that is hardly the way to put it taking the first year loading and the savings from the mortality the expenses were three times that.

Q.—Speaking in the first place by comparison with other companies, what do you say as to that failure to make good the cost of securing the first year insurance, is it high or low? A.—I should say on that point I have not made any comparison.

Q.—Can you say whether it is high or low having regard to what your own company has experienced? A.—Comparing the expenses of first year to the total first year income I would not consider it—

Q.—I do not want you to make that comparison; comparing the total expenses for first year insurance with the amount available out of the premium income itself for that purpose? A.—With these margins?

Q.—Yes? A.—I have made no computation of that kind.

Q.—You are in a position to tell me probably in a moment what the volume of new business was that was written in 1905? A.—\$6,345,000.

Q.—Can you express an opinion as to whether or not having regard to the premium income this deficit is abnormally high? A.—No.

Q.—Then on renewal premiums you had provided a loading for expense for that year of \$258,185.55? A.—Yes.

Q.—Out of that you have to take the expenses you actually had to pay, and that you have put under the head

“Less all other expenses except taxes, repairs and investment expenses,” that is \$143,753.58, leaving a profit out of renewal premiums paid during 1905, or rather out of the loading upon those renewal premiums of \$114,431.97. Did you make a saving in death losses in respect of policies that were not issued in 1905 during that year? A.—Yes, it shows there.

Q.—The expected death losses were \$309,011, and the actual death losses \$195,048, or a saving of \$113,963, in respect of death losses on policies other than those issued during that year. That of course is more than exhausted by the failure to make good your loading and margins in first year insurance? A.—From this table.

Q.—And you are not at all throwing any doubt upon this table, are you? A.—No, none whatever.

Q.—You seem to have made a loss when you compare the expected annuity claims maturing with the actual annuity claims, a loss of \$3,252? A.—That is a case where the annuitants are living too long.

Q.—Can you tell me, because I expect to get information of that sort from you, what is the cause of this very high difference—because I think I may call it that—this very high difference between the provision made for the cost of first year insurance and the actual cost of obtaining it? A.—Firstly, I do not know that it is very high as compared with some of the others.

Q.—Why should there be any loss there at all? A.—If you want to do business you have to pay a certain rate for it.

Q.—Now you are getting to just what I expected your answer to be, if you want to get business you have to work under conditions of competition? A.—Yes.

Q.—And you have to meet that competition? A.—Yes.

Q.—And if other people are making a great outlay to get an influx of business so must you? A.—To some extent, but circumstances alter cases, and you cannot work a Province like Manitoba and the Territories and British Columbia as cheaply as you can in a smaller territory with larger population.

Q.—All that of course is a loss which ought eventually to be borne by those who insured during 1905, it ought not to be borne by those who were insured before 1905, or who insure after 1905, is not that so as a matter of sound

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insurance theory? A.—That would be a matter of opinion depending upon the size of the company.

Q.—Take your own company and give your opinion? A.—Our company is not large enough for the new estimates of each year to take care of it for that year.

Q.—You misapprehend my question, and I daresay it is my fault. Eventually ought not the business written during 1905 to carry itself, apart from all other business? A.—That would depend upon how it was treated.

Q.—Ought it to be so treated from an insurance standpoint? A.—You want to classify your policies into years to do that, and your expense into years to do that, but in a company of our size we could not do it.

Q.—Ought not the business written in 1905, having regard to its subsequent history, to justify upon the money it produces, or by the use of the money it produces, the expenditure made to secure it? Is that plain to you? A.—I know what you mean, but it is rather difficult to frame a reply that would be fair to the company.

Q.—Take your time, then, I do not want to be unfair to the company or to anybody else. I want to know whether that is not sound insurance, and whether any other theory is not unsound. Let me get at it by degrees. While that deficit still continues, of course you have nothing out of which to put up reserves, have you, on the business written in 1905? A.—Well, in no policy you issue can you provide a reserve out of it the first year.

Q.—I know that? A.—That answers the question.

Q.—That does not answer the question. It answers, perhaps the question as you understood it, not the question as I intended it. Until you have made that deficiency good out of the business receipts on the insurance written in 1905, some other class of business must be putting up the reserve for those policies: is that not so? A.—Yes.

Q.—And how long will it take to make good that deficiency, assuming the rate of profit afterwards to be as shown here in respect of other business? A.—Will you kindly repeat that.

Q.—You show a profit on renewal premiums paid in 1905, that is in respect of business written before 1905? A.—Yes.

Q.—Now, correspondingly I suppose you would be showing some profit, at

all events, the next year or the second year or third or fourth or fifth year in respect of business written in 1905? A.—Yes.

Q.—Until that happens the other shareholders are putting up the reserve out of money that ought to go to them? A.—Well, you see there is the element of the savings from mortality here; that helps the company; there is the reserve you have provided the previous year which falls in to you this year; it goes on to help you to provide for this liability; you want to take the individual policy and you want to know when it will be self sustaining.

Q.—Yes? A.—Well, between four and five years.

Q.—In the meantime, and until it becomes self sustaining, is it not true that the reserves in respect to it have to be maintained at the expense of other income? A.—Well, partly so, and there is a benefit to a company in having an accession of new lives from year to year.

Q.—I agree to that? A.—All of which the old policyholders—the theory is that the old policyholders will hold something in respect of that.

Q.—I do not want to take you into a matter you do not feel prepared to answer? A.—I will answer everything to the best of my ability.

Q.—After the four or five years which it takes for the policy written in 1905 to become self sustaining, or the group of policies issued in that year to become self sustaining, after that time comes then there is still something to be paid back, is there not, or did you mean that they had made good the loss? A.—They had made good by that time.

Q.—Have you made any calculations, or will the other gentleman you speak of give me that, as to what proportion of the policies written during any particular year lapsed after payment of only one premium? A.—Yes, that has been provided. He has all that.

Q.—Then I will pass on to the next item in the profit and loss statement, the interest, dividends and rents received during 1905; that is income in respect of investments? A.—Yes.

Q.—And so forth? A.—Yes.

Q.—\$305,115.92: from that must be taken taxes, repairs, and investment expenses \$20,517.27, the amount required to make good the reserve, \$246,808.83, and the dividends paid the stockholders \$6,000? A.—Yes.

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Q.—Making a total in these three items of \$273,326.10, leaving a saving on that item of \$29,789.82? A.—Yes.

Q.—Then you make a profit also from sales, or maturity of investments? A.—Yes.

Q.—\$3,721.03? A.—Yes.

Q.—\$220,099.28 out of the reserves has been realized by surrender and lapses? A.—Yes.

Q.—And against that you have allowed surrender value \$130,191.52, leaving a saving of \$90,218.16? A.—Yes.

Q.—Then there are these other losses as per schedule \$11,409.76, provision for interest paid in advance; what is that? A.—That is on policy loans.

Q.—And \$6,000 provision for accrued expenses—what does that mean? A.—That means there are sundry accounts unpaid at the end of the year, and we provide a liability for them.

Q.—Then those two items make a total of \$17,409.76, which goes into the loss column; that is, you have a total of profits arrived at in this method of \$352,113.98, and a total loss of \$190,145.94, leaving the net profit or loss, the net profit in this case, \$161,268.04? A.—Yes.

Q.—Is the difference between the expected losses by death and the actual losses normal in this profit and loss statement, according to your experience or knowledge, or is it rather higher than you have a right to expect? In other words, do you make a greater saving in 1905 in respect of that difference than you usually do? A.—I think it was favorable in 1905.

Q.—That is the profit in respect of that, the gain in respect of that—I won't put it profit—was more than you were accustomed to have? A.—Yes.

Q.—Do you know to what extent? A.—I could not answer that without an analysis of the other years.

Q.—Is not the custom of dropping insurance at the end of the first year, due to rebates, and therefore high prices,—is that not very inimical to the getting rid of that initial loss on the first year's business? A.—Will you repeat that?

Q.—Every policy written in 1905 at the end of 1905 represented a dead loss, did it not, in respect of a comparison of income and expenditure? Every policy issued in 1905 on the 31st December, 1905, showed a loss to the insurance company? A.—That is the case with every policy issued.

Q.—At present I am concerned with 1905, because that is the year before:

it would be so in 1904 and 1903 as well? A.—Yes, in any company.

Q.—Then if at the end of 1905 that man ceases to pay premiums, it remains a loss? A.—Yes.

Q.—And that policy never makes itself good, and is a loss which, as an ultimate loss, has in any event to be made good out of other policies—out of the moneys paid in in respect of other policies; that must be so? A.—You have provided a reserve from other sources—Yes, that is so.

Q.—Just one question about this \$6,000 of interest paid the guarantors: that is ten per cent. interest. Is it supposed that that ten per cent. is what those moneys have earned, or is it just a dividend because the moneys are there? A.—Well, it was some years ago when they paid ten per cent. they were supposed to have earned that.

Q.—But it is no longer earning that, is it? A.—Yes.

Q.—You are not making any investments at ten per cent.? A.—No, but the \$60,000 would be entitled to be credited with the rate of interest that the funds earned.

Q.—Do your funds that you have invested earn anything like ten per cent.? A.—No, but then it provides that any profits on business in force on the non-participating plan would go to this.

Q.—Supposing you put those in? A.—Yes.

Q.—Are you earning anything like ten per cent? A.—From those two sources?

Q.—Yes? A.—I should think so.

Q.—Are you earning anything like ten per cent. in respect of profits on non-participating policies? What is the average rate of investment that you are realizing? A.—About 4.85 say five anyway, to put it roughly.

Q.—Five would be the outside? A.—Yes, I do not think it is quite five.

Q.—Say five per cent: of course if you get that down to five per cent. you would only have an item of \$3,000 there? A.—That is all; that is what I wanted to convey, sir.

Q.—You have used the language here that has been used, "Book value used?" A.—Yes.

Q.—Do the words "Book value" mean the same in the case of your company as it does in the case of other companies, what it stands on the books? A.—Yes.

Q.—It has nothing to do with the market values? A.—No.

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Q.—Does it mean then cost value?
A.—No.

Q.—Does the cost value enter into it? A.—No, it means the amount that stands on the books now.

Q.—And that does not necessarily mean cost value and does not necessarily mean market value? A.—No.

Q.—There are two or three things in connection with that that I want to diverge for the purpose of taking up—

JUDGE MAC TAVISH: It is not clear to me about the other sources from which the interest paid guarantors is obtained. I understand Mr. Goldman to say it is from the profit earned by the company on non-participating policies.

WITNESS: The Act allows that.

Q.—It accounts for \$3,000? A.—Yes, and I have explained that to Mr. Shepley, how the ten per cent. could be arrived at.

MR. SHEPLEY: Q.—This is the clause in the Act of 1897, at page 11 "The guarantee fund so subscribed shall be liable for the payments of losses, and may be used for the purposes of the company in such manner and to such extent as the directors may by by-law determine: the said guarantee fund shall be redeemable by the company out of the accumulated surpluses, at such time and upon such terms as shall be decided by a majority of the members present at a general meeting called for that purpose, or at an annual general meeting of the company: and, until redemption, the directors may pay to the holders of shares thereof dividends upon the amount paid up, at such rate as may be agreed upon by the directors, but not exceeding fifteen per cent. per annum—the profits from the non-participating policies being first applied in or towards the payment of such dividends?" A.—Yes.

(Profit and loss statement filed, exhibit 134.)

Q.—You will perhaps want to have before you, in order to answer the questions I am about to put to you now, your investment statement that you have furnished to us. When you turned over an investment, realized it, and sold it and made a profit, where would that profit go in ordinary cases, in regular course? A.—I think there is a statement there somewhere.

Q.—For instance, you will turn to the statement of the Imperial bank stock. Now, in November and December, 1900, you sold 200 shares of Imperial bank stock? A.—Yes.

Q.—Page 5 of the statement. Then what amount do you show as a profit upon that stock? A.—\$6,650.

Q.—And how is that arrived at, please? Part of it was sold, you know, and part of it you still hold? A.—Yes.

Q.—How much profit was there on what you sold? A.—It exceeded the book value by these two items.

Q.—Can you give me the total amount? A.—Yes.

Q.—\$3,350? A.—And \$450 that belonged to the dividends; then this time there was no dividend declared against it, and it represented \$3,300 over the book value.

Q.—Did you write some of that up? A.—Yes.

Q.—Did you write what you held up? A.—Yes.

Q.—To what amount did you write that up? A.—\$5,000.

Q.—And what did you do with that? A.—We credited that against the agents' advances.

Q.—What time was that? A.—December 31st, 1902.

Q.—Just explain to the Board what that means, if you please, crediting that to agents' advances? A.—It means that we had a certain amount of money advanced to agents standing as an asset on the books, and the market value of our securities was largely in excess of the book value; we took a portion of that and credited it against those agents' balances.

Q.—What were the agents' advances? Moneys due you by your agents? A.—Moneys we had advanced agents for business, which they did not earn.

Q.—It was in other words, in its inception, money you paid out to secure business? A.—Yes.

Q.—And an expense? A.—Well, we carried it as an asset.

Q.—It was intended, however, to be expended in securing new business; that is what it was given for? A.—Well—

Q.—And if it had secured new business it was an expenditure that would so have been shown; is that not right? A.—It was money advanced on account of business to be produced.

Q.—And if the business had been produced it would have appeared as an expense in the course of producing it? A.—Yes.

Q.—Then as the new business had not been produced, it was treated as an asset still in hand, available to produce new business with; that is the

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way it appeared before you wrote it off or wiped it out? A.—It stood there as an asset.

Q.—An asset in theory, because it was supposed to be on hand, available to produce business with? A.—Yes.

Q.—That was not quite an accurate statement of the position, was it? It was not available for the production of new business at all? As a matter of fact it had all been expended, had it not? A.—It had been paid out.

Q.—And it was just a debt which your agent owed you? A.—It was a debit which could be carried as an asset.

Q.—You carried it as an asset, I understand, but you did not expect or intend that your agents should pay it back to you? A.—If we could get it back.

Q.—You did not expect to be able to get it. Let us get together as soon as we can about a matter which we should not waste time over.—You did not expect to get it back from the agents? A.—If we advance money to agents we are always hopeful of getting it back. We are often disappointed.

Q.—I will accept that answer? A.—Thank you.

Q.—Then having an item of back stocks standing upon your books at a certain book value, you added to that value in the books? A.—Yes.

Q.—A certain sum which really was a profit upon that investment, was it not? A.—It was an appreciation.

Q.—But it was a profit upon that judicious investment? A.—Yes, if you put it that way.

Q.—Is that not the right way to put it? If there had been no item to get out of the way, would that not have been the proper and correct way of putting it? A.—It would have been a profit if it had been sold, but pending sale you take credit for the appreciation in value.

Q.—And it ought not to be any better, or go into any different fund because you put it in advance of the sale, than if you had actually sold and realized, ought it? A.—I think so.

Q.—You think it should? A.—Yes.

Q.—That is the intention of bringing it back eventually; supposing you had sold for just the amount of the appreciation, and no more, you would have made that profit? A.—Yes.

Q.—And it would have been a profit on a judicious investment? A.—Yes.

Q.—And that is where it belonged? Won't you say so? A.—No, I won't agree to that.

Q.—You do not agree that if you make a judicious investment, and the result is that you are able to write it up before you sell it, and still keep within the? A.—Able to take credit for the appreciation.

Q.—You won't agree that that is due to judicious investment and belongs there? A.—It is a judicious investment.

Q.—And belongs there; it is a profit on investment when realized? A.—Well, I would not look at it that way.

Q.—I want to get with you if I can, and I want you to get with me if you can. Supposing the bank stock stands you at \$20,000, and supposing you could sell it in the market for \$25,000 to-day; and supposing, knowing that you could sell it to-day in the market for \$25,000, you say "This investment which cost me \$20,000, I will now write down in the books as being worth \$25,000"—that is what you mean by appreciation? A.—That is appreciation.

Q.—Supposing to-morrow it is still worth \$25,000 and no more, you sell for \$25,000 and have made \$5,000 on your investment? A.—Yes.

Q.—And that is a fact which is not at all affected by your writing up in the meantime, is it? As a matter of principle it can be done? A.—I am not looking at it from your standpoint.

Q.—I want you if you can: not unless, of course, your reason goes with me: but if your reason will travel with me, I want it please. Would you not say in the case I have put to you—A.—I am afraid it does not.

Q.—Supposing you wrote it up in the investment column from \$20,000 to \$25,000 in the case I have supposed, and the day after you wrote it up you sold for \$25,000, where would you put that \$5,000? A.—If you sold that would be a profit.

Q.—And where would you put it? Under the heading of "Profits on investments" would you not? A.—Well, you might.

Q.—Would that not be the proper place? A.—Not necessarily so.

Q.—Is that not what it is? Does that not describe it? A.—Well, you might transfer it to some other account.

Q.—You might, but if you do not transfer it to some other account, is that not just what it is in essence, profit on investment properly made? A.—If you put it in a profit account it is a profit, and if you transfer it to some other account it does not go to profit.

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Q.—It becomes something else for the purposes of that account? A.—Yes.

Q.—But it was really profit? A.—Yes, if you sold and realized.

Q.—Perhaps you have not gone so far in form as I think you have in substance. Now, is it desirable that when you make profits on investments that those profits should be treated as profits on investments, or is it desirable that they should go off to promotion expenses or anything else but under there? A.—Well, that is a matter of judgment.

Q.—You cannot make the \$5,000, when you have it in hand, you cannot make it rise from any other source than the investment? A.—No.

Q.—You cannot attribute it to any other source? A.—No.

Q.—You may apply it to some other purpose? A.—Yes.

Q.—But that does not affect its source? A.—No; that is what I had reference to; you can apply it.

Q.—Well, then, in the particular case that we are discussing you take \$5,000 appreciation, and you apply it in reduction of these agents' balances, as you call it? A.—Yes.

Q.—The result of that was to lessen the apparent profit from investments shown by the profit account, was it not? A.—In that particular way.

Q.—Then the result of it on the other hand was to eliminate something which really in fact was an expense, and made the expense account so much smaller? A.—No, it eliminated an item that was an asset on the books.

Q.—And which was an item of money paid out for the purpose of procuring business with? A.—That could have been carried as an asset.

Q.—But which was paid out in the first place with a view of procuring business; and, so paid out, if the business had been procured, that would have been an expense? A.—That was advanced.

Q.—So paid out, if the business had been procured, would have been a legitimate expense of that business? A.—If the business had been procured it would not have been there.

Q.—It would not have appeared as an asset, but as an expense in connection with the very business it procured. Surely that must be so. I want to speak of things as they really are; that is so, is it not? A.—Well, I am looking at it from a different standpoint.

Q.—Well, try and look at it from mine. Supposing you give me \$5,000,

and you say "Mr. Shepley, you go off and secure \$100,000 of insurance for my company, and that \$5,000 I will pay you in commissions. It will be yours, and you will not have to give it back to me. If you do not secure the \$100,000 of insurance for me, you will owe me that \$5,000." Is that not in essence the very thing that happened here? A.—Well, that is a debt.

Q.—It is a debt that I owe you? A.—Yes.

Q.—If I had brought the \$100,000 of insurance you would have said "I have \$100,000 of insurance, and it cost me \$5,000 to get it?" A.—Yes.

Q.—And that would have been a legitimate expense in connection with it? A.—Yes, if the business had been procured.

Q.—Well, then if I did not procure the business and owed you the money, and unfortunately I am not able to pay it— A.—Well, you could carry it as an asset.

Q.—I know? A.—You could carry it as an asset if you chose, with the hope of getting it back some time.

Q.—You could carry it as an asset if you chose? A.—Yes.

Q.—If you had nothing to pay it with yourself out of any source, and I had nothing to pay it with myself out of any source, it must inevitably appear as something you have expended among your expenditures, must it not? A.—Some time.

Q.—What view did the Department of Insurance take of this question? A.—They differed with me.

Q.—And they insisted in your annual returns in putting it under the head of "expenditure?" A.—Yes. And we, of course, deferred to the views of the Department.

Q.—But perhaps you still maintain the view that you maintained then—still entertain the view you entertained then, notwithstanding the ruling of the Department? A.—Yes, I thought that, although the department differed with us.

Q.—Did you take any more of that appreciation on Imperial Bank stock in 1904? A.—Yes.

Q.—And put it over to agents' advances? A.—Yes.

Q.—How much? A.—\$1,000.

Q.—Then I call your attention to a sale of Bank of Toronto stock in 1900? A.—Yes.

Q.—Is that right? A.—Yes.

Q.—You sold at a profit of \$8,782.50? A.—Yes.

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Q.—Did you write that off against advances, or did you carry that to profit on investments? A.—I am not certain about that.

Q.—I think you took it to profit on investments? A.—I think so, yes.

Q.—Then the Montreal Gas Company, you made two sales there in December, 1898, one at a profit of \$2,894.05, and the other at a profit of \$2,860.69; do you see that? A.—The total being \$2,972.35.

Q.—On which sale is that? 1898? A.—That is the sale of 1900, the profit on 455 shares of Montreal Gas.

Q.—In 1898 there were 628 shares at a profit of about the same? A.—Yes.

Q.—Both those two very considerable sums are carried to profit on investments, are they not? A.—I believe so, yes.

Q.—Then the same with the Standard Bank? A.—Yes.

Q.—416 shares, profit \$4,302 odd, carried to profit on investment? A.—Yes.

Q.—Then, Ontario Bank December 1900, 26 shares, a small profit of \$397, carried to profit on investments? A.—Yes.

Q.—Then the Bank of Hamilton—you have not sold any of that stock? A.—I do not think so.

Q.—There has been an appreciation there of \$9,829.75 in 1902 and of \$1,000 in 1904? A.—Yes.

Q.—And those have been applied in reduction of agents' balances? A.—Exactly, the same as in the other case.

Q.—Similarly with regard to the Bank of Ottawa, \$2,000 has been written up and applied similarly? A.—Appreciation taken credit for that, yes.

Q.—Then Dominion Bank, you have sold 400 shares at a profit of \$1,733.34; do you see that? That was in March, 1901? A.—At a profit of \$1,733.34, yes.

Q.—What did you do by way of appreciation of the balance of your holding in 1902? A.—\$3,000 we took credit for.

Q.—What did you carry to the credit of the agents' balances? A.—The same amount.

Q.—Just the \$3,000? A.—Yes.

Q.—What did you do with the \$1,733.34? A.—That I believe would go to credit on investments.

Q.—Then in 1901 you sold the Bank of Commerce; in 1902 you sold Bank of Commerce, and in 1903 you sold Bank of Commerce and you realized a

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profit there of \$3,394.05. Do you find the Bank of Commerce? A.—Yes, I have the Bank of Commerce.

Q.—What did you do with that? A.—That went to profit on investments.

Q.—When did you appreciate that stock? A.—December 31st, 1902, \$3,000.

Q.—And how much did you credit to agents' balances? A.—The total—

Q.—Did \$5,000 not go to agents' balances? A.—On December 31st there was \$1,000 more.

Q.—Was that another appreciation? A.—Yes, making \$5,000 altogether.

Q.—Then the Toronto General Trust Corporation—you have not sold any of that, but you have taken up a new allotment, and you have appreciated in 1902 and 1904 \$15,000 and \$8,000 respectively—gone to agents' balances? A.—Yes, sir.

Q.—Electric light company, appreciation of \$7,000 in 1902, of \$8,000 in 1904, all applied against agents' balances? A.—Yes.

Q.—Take Commercial Cable for me please. You sold out Commercial Cable, did you not? A.—Yes.

Q.—And realized \$15,148.28? A.—Yes.

Q.—What did you do with that? A.—Carried it to the credit of real estate Contingent Fund.

Q.—What was the real estate Contingent Fund? A.—It was real estate we were selling, and readjusting the values at the end of 1904.

Q.—What was the Contingent Account? A.—The real estate Contingent.

Q.—What was the Contingent Account for? What was the purpose of opening such an account? A.—The purpose was that if we made a profit on one piece of property we would credit there, and if there was a depreciation of another we would debit it there, so that one would offset the other, like a profit and loss account.

Q.—I can understand you could do that with the real estate which you had to sell, but what was Commercial Cable doing there? A.—We took the credit of this to that fund in the adjustment of our values.

Q.—If you had not had any real estate which was doubtful in value, you would have carried that Commercial Cable profit to profit on investments, of course? A.—Exactly, and if we had not had those mortgages, and had not had to go through from 1890 to 1900,

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we would have made a great deal more money.

Q.—In that way, as I have it here, you carried in 1902 to the credit of agents' accounts \$44,829.75? A.—Correct.

Q.—That was an uneven amount, and it was made uneven by appreciating the Bank of Hamilton stock by the odd sum of \$9,829.75; is that right? A.—What is that?

Q.—I want to see whether that is not so. I just want to make the connection. The Bank of Hamilton stock is the only appreciation in odd figures that appears? A.—Yes.

Q.—The rest are all in round figures, thousands? A.—I expect you have it correct; \$9,829.75, yes.

Q.—Now, then, as I say, the other figures you have given me are all round figures, \$5,000, \$3,000 \$2,000, \$15,000 and \$7,000, and this is the only odd figure. Do you account for that at all. Is it because that exact figure was necessary to make this appreciation exactly agree with the agents' balances? A.—I expect so.

Q.—In 1904 you have given me the Imperial Bank, the Bank of Commerce, Bank of Hamilton, and the Toronto General Trust Corporation. Then there is the Toronto Electric Light Company transaction \$8,000. What was that? Appreciation? A.—Yes.

Q.—And there was the Sandwich Windsor and Amherstburg Railway Company; was that appreciation too? A.—Yes, bonds—that was appreciation.

Q.—\$24,665? A.—Yes, that is correct.

Q.—And that again agreed with the agents' balances that year? A.—Exactly.

Q.—In both these cases were the accounts remodelled so as to show these as expenses when it came to the department? A.—I could not say that. I know it was at the end of 1904.

Q.—This is the memorandum from Mr. Blackadar on the subject, written in 1905: "Upon an examination of the securities ledger of this company, I find the following book values of the stock has been written up, namely, Imperial Bank, and so on. No reference to the writing up is made in the synopsis of the ledger accounts, and there was nothing to show in the income and expenditure account a statement that such a sum had been added

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to the ledger assets." Were you aware of that? A.—Of what?

Q.—Of that report of Mr. Blackadar's? A.—No, I was not aware of it until it appeared.

Q.—This statement says "Mr. Goldman's explanation was that a large amount was advanced to agents in the United States and that money was lost by that;" would that be right? A.—I do not remember saying that. Mr. Blackadar came in to see me before leaving, about the only time I saw him when I was there, and called attention to what we had done, which I told him was perfectly correct. We had done that and thought it was all right, and discussed it with him, and he differed with me and said he considered it should be in the report, and asked me if I had any objection to enter against it appearing, to put my objections in writing. I said to him that I differed with him, but that the opinion of the Department must prevail, and we deferred to their views; that is what took place.

Q.—Is it correct to say that the same amount \$24,665 had been deducted from the first year commission account in the ledger? A.—No.

Q.—That is not correct? A.—No.

Q.—It did not appear in the first year commission account in the ledger, or items going into it did not appear there? A.—It should not, because it was under agents' balances in the ledger. If there had been an entry transferring it to commission account it was incorrect.

Q.—Can you ascertain how that is before the morning? A.—Yes.

Q.—Because Mr. Blackadar's statement is very specific, "Upon further examination of the books of the company it was found this same amount of \$24,665 had been deducted from the first year commission account in the ledger?" A.—That is a little confusing; there may have been an entry transferring this item to commission account; I think it would be taken out afterwards. The ledger account would be agents' balances.

Q.—What he said with regard to what you have just said is this, "No reference to this writing up was made in the synopsis of the ledger accounts, and there was nothing to show in the income and expenditure account a statement that such a sum had been added to the ledger assets?" A.—That is perfectly correct.

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Q.—That is correct? A.—That is correct.

Q.—If it appeared in the first year commission account, or if it formed part of the first year commission account, it would appear in the income and expenditure account, would it not? A.—Yes, but it did not.

Q.—You have just said it did? A.—No, I said if it had been transferred there, that was an inadvertence, and it was taken out again by the other entry.

Q.—Don't forget to see whether this statement is correct, that \$24,665 was deducted from the first year commission account; just look for that for me over night? A.—Yes.

Q.—Mr. Tilley points out to me that you have made a report upon the foreign business in which you say—this is a report which seems to be submitted at the meeting, page 241— A.—What date is that?

Q.—I am looking for it. Your reports are most admirable, but you never put a date on them? A.—Was that my report on the British business.

MR. TILLEY: Michigan business.

MR. SHEPLEY: It seems to be at the meeting of the 20th October, 1904.

MR. BARWICK: It is only a verbal report.

WITNESS: I think about that meeting you will find my report on the British business there.

Q.—“The Managing Director reported that, finding that the cost of business in the State of Michigan, owing to the advances made to agents there, was altogether too heavy, he thought it necessary to endeavour to make some re-arrangement of the basis upon which the company was working,” etc. A.—Yes, that is correct.

Q.—Had the advances made to agents there any connection with the matter we have been discussing? A.—Partly and partly in other States as well.

Q.—There you speak of it as the cost of the business owing to the advances made there being too heavy? A.—Yes.

Q.—That is a fashion of speaking— A.—It is in a report, and whatever I have done I do not go behind in any way at all.

Q.—It is not conclusive one way or the other; I do not say it is? A.—Thank you very much.

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Q.—But that is the way you speak of it then? A.—Yes.

(The Commission then adjourned till 10.30 to-morrow.)

TWENTY-SEVENTH DAY

MORNING SESSION.

Toronto, May 22nd, 1906.

Examination of Mr. Goldman continued.

MR. SHEPLEY: Q.—Yesterday we finished, I think, discussing the appreciation of certain securities in 1902 and 1904, writing them over against the item, “Agents’ advances”? A.—Yes, sir.

Q.—So that they appeared no longer as an asset? A.—Yes.

Q.—So that the sum which would have otherwise have been carried to profit from investment was not so carried? A.—That was according to the understanding of Mr. Blackadar.

Q.—Mr. Blackadar in 1904 insisted upon the reversal of that item and putting it into expenditure? A.—Yes.

Q.—That you have already told me; was what you had already done in 1902 discovered by Mr. Blackadar and similarly reversed by him? A.—I have no knowledge of that.

Q.—In 1903 what took place with respect to agents’ advances? A.—In 1903 was what is known as a slump year here, and the company had little or no margin from its market values at that time, and the directors were disinclined to carry this asset into the statement as an asset, because it would have simply increased the surplus by that item, and it was therefore written off.

Q.—It was written off without any corresponding appreciation of values being written up? A.—Yes, because we had not the margin to do it.

Q.—That being written off, did not appear in your yearly expenditure for that year as your account was returned? A.—Oh, yes.

Q.—Then what you say is, and that is probably quite right, that it was not reversed by Mr. Blackadar that year, but that you yourself wrote it off so that it appeared among the items of expenditure? A.—Exactly, that is the correct understanding.

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Q.—And the sum that year was \$30,910.30? A.—Yes, whatever is stated in the blue book; that corresponds exactly with our books.

Q.—I am quoting from the blue book; corresponding with your books as they were before Mr. Blackadar made his inspection? A.—Yes.

Q.—With regard to both classes of items, I want to ask you a question or two more; I do not know whether such a case has ever happened, you will know, but supposing after writing off, as was done in 1903, or after carrying profits from investment or appreciation to wipe the agent's balance out, supposing after that these agents were to make payments to you on account of these debts, what would happen then—in the first place, was there ever such a case? A.—Dozens; as a matter of fact I find that we have to-day from our subsidiary accounts in the neighborhood of fifteen to twenty thousand dollars of agents' advances that we consider reasonably good and may be collected, and that we could, following the practice of many companies, put in our balance sheet as an asset, but we do not do so.

Q.—That means this, if I understand you, that in many cases these moneys are paid over to you notwithstanding that they have been written off in one of the ways that we have spoken of? A.—Repeatedly we recover items or partial items.

Q.—Just before following that up, do the agents sometimes instead of paying the money earn the commissions? A.—Oh, yes.

Q.—That is another way of making good? A.—Yes.

Q.—And that happens frequently, too? A.—Yes, quite frequently. As an illustration, we have an agent, a comparatively new man, to whom we guaranteed about \$200 a month—remarkable to say, he had been a bank clerk before, but he put some life and energy into it, we advanced him \$200 per month, and he has already earned in cash over \$300 a month, but that is an exception.

Q.—Supposing an agent either earns the commission that is advanced, which has been written off, or pays it, what do you do in your accounts with the sum of money so paid, or with the sum of money so earned? A.—It is credited against the current advances to agents.

Q.—What is the effect of that? A.—The effect of that is to reduce the outgo, the assets for that year of agents' advances.

Q.—For the current year? A.—Yes.

Q.—It does not in any way find itself put back into the expenditure of the year in which the advances were lost? A.—No, you could not do that.

Q.—You could not do that as a matter of book-keeping? A.—No.

Q.—It does not find its way into the expenditure of the current year? A.—No, it goes to reduce that.

Q.—It goes to reduce the expenditure of the current year? A.—Yes, in other words, instead of carrying the assets that I referred to of fifteen or twenty thousand dollars, that is written off, and when any result comes from that it is carried into the company's credit as a cash item.

Q.—And a current cash item? A.—Yes, belonging to the year which creates the proper balance.

Q.—Is the book-keeping with respect to it made to affect at all any appreciation of the securities in respect of the previous writing off? A.—Not one dollar.

Q.—It has only the effect of current cash receipts? A.—That is all.

Q.—Then to the extent, of course, to which you have treated money so received or money so earned in the way you have stated, to that extent you have made your expenses for the current year seem less than they were really in fact? A.—That is if it were to be treated as an expense item, which is a disputed point between—

Q.—Oh, I am not raising any dispute at all. I say the result of that method of treating these payments is to make your expenditure for that year appear less than it otherwise would? A.—If you put it on that basis.

Q.—That is the way you do with it, there is no room for controversy about that? A.—No, but in going into the evidence, if any one treated it in that way it would naturally reduce it, that is what you want?

Q.—Yes? A.—But of course I claim we have the right to treat it in the other way. However, Mr. Blackadar took a different view, and following our practice we deferred to his views, that ends the treatment of it.

Q.—I am speaking now of the subsequent treatment of the item when it becomes a payment to you or an earning of your agent? A.—Yes, it has that effect.

Q.—It has the effect of apparently reducing the expenditure for the cur-

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rent year? A.—Yes, that is taking the view Mr. Blackadar does.

Q.—It has that effect in fact? A.—Well, of course—

Q.—For instance, supposing you have an expenditure of \$100,000 in obtaining insurance during that year, and supposing again that you have credited \$1,000 that has been paid in in respect of past debts by agents? A.—Yes.

Q.—Your current expenditure of obtaining insurance that year would only appear to be \$99,000? A.—Exactly.

Q.—Let me put it perhaps in another way, that you do not make it appear that you have had to pay agents' commissions in respect of a certain volume of insurance? A.—No, because we do not treat it as a commission, it is the difference of the interpretation.

Q.—I am trying to allow for the difference in interpretation, and trying to get at what the effect is as a matter of fact—it is quite plain, is it not that if in truth and in fact it has cost you \$100,000 to get your new business that year, if you make it appear it has only cost you \$99,000 then you bring about an apparent reduction of expenditure which is not real? A.—If you take an arbitrary practice and charge it all up against that year it would be so.

Q.—That is what you do? A.—One minute, sir.

Q.—Yes? A.—But if as is done by the majority of American companies,—you can see in the returns—any one familiar with the practice is aware of it—that item is carried and sometimes runs into two or three millions, is carried as an asset, it is the present value of the future, and it is written off gradually; then it does not have the effect you state.

Q.—I am only concerned for the present with the way in which you treat the item? A.—We have no option, the Department have ruled.

Q.—No, you are not again quite appreciating what I mean; I mean the item of an unexpected realization of agents' balance which has been written off, when that comes in you say you write that to the current income of the year? A.—Certainly, and that to that extent will reduce the out-go of that year.

Q.—That is what I was asking? A.—We misunderstood one another. In that connection I would like to mention, this is what is called the Board of Trade returns of Great Britain; here they require to give a statement

of their true state of their affairs only once each five years and never are they required to give a detailed list of their assets; so while a great many talk very glibly about the directors and the officers no one knows a thing about them. I have here one old company—I won't mention its name, it is a company with thirty millions of assets—it carries as agents' balance money invested for the procurement of business, \$350,000—recognized in Great Britain.

Q.—As an asset? A.—Yes.

Q.—I am quite prepared to accept your statement that these agents' balances were carried as assets, that is not an unusual thing with insurance companies? A.—The other points involved have all been admitted by me, and our deferring to the ruling, but I wanted to impress upon those who may be here that we are familiar with the practice of the different companies and what they do—

Q.—The same as the year before. A.—Yes.

Q.—And I do not doubt that at all? A.—I know why they do it, but we do not, simply because our directors believe in having the assets in a neat, solid shape; and if you carry that it is merely creating what may be considered as a paper surplus, and any company having a paper surplus the danger is they may divide more money than they are entitled to, and hence leads to insolvency.

Q.—I think I can quite agree with you in that, a paper surplus is not a desirable surplus to be exhibited to anybody. Now I want you to take up the other feature we have been discussing; you write up an asset—take \$20,000 of bank stock, you appreciate it \$5,000, making it \$25,000, and that appreciation is dealt with—that is neither here nor there for the present—is dealt with in the way you described yesterday; supposing the stock during the next year and before your next return either to the Government or to your shareholders, goes back so that it is only worth \$20,000, what do you do then? A.—I can answer that in a few minutes.

Q.—In the first place has such a case ever happened, because otherwise it is hypothetical, and we had better have it put as being hypothetical? A.—I think I had better answer it in a general way, that will cover the whole ground. The practice of the North American Life is not to take credit at the end of the year for the market value of its securities in excess of the

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book value in its statement, that is seen by the Government return, we have to show it, required by the Government to be done, but it is carried in short. A statement is submitted to the Department, and I should mention one point you asked as I noticed in evidence some time ago, as to the end of the year what was the practice of a certain company in ascertaining the market value of the securities: Our practice is to send a list of them to some broker and have him insert the market value as at the 31st December, and sign his name, and that is produced for the benefit of the Department. Now having that fact before us we make the calculation of which you have the list there, and at the end of 1905 we had an excess of market value over book value of \$108,000, which did not include in our surplus. That is sufficient to allow for the variation of stocks from year to year, because, answering your question more specifically, I should mention that we have had at one time a stock that went below what we paid for it, for instance I will take the Merchants' Bank of Canada; the Merchants' Bank of Canada cost us, no appreciation, \$14,000; at the end of last year the market value was \$12,880. We leave that on our books at that \$14,000, because adding the total together we have such a large margin of unused surplus.

Q.—There may be another reason for that which I will point out to you in another connection, but at all events I quite appreciate that; I quite appreciate your explanation but what I want to get at now is the specific answer to the question I have put; supposing you have increased the book value by this method of appreciation, and supposing the market value recedes, or supposing that you realize upon your securities and only realize the lesser value, \$20,000 in the case I have put, what do you do then? A.—Supposing we only realize on it?

Q.—Yes? A.—Then in that case that would be a loss against that item.

Q.—A loss against the book value? A.—Yes.

Q.—Although there was no loss in fact it would appear as a loss upon investment? A.—It would be carried to that account, and subject to making a profit on some other investment to offset that.

Q.—Of course if there had been no appreciation at the beginning your statement would have shown neither profit nor loss? A.—Exactly.

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Q.—As it is in respect of that particular asset you show a loss which really did not exist? A.—I do not follow you.

Q.—In respect of the particular asset? A.—That is the agents' advances —

Q.—No no, bank stock, \$20,000, paid for \$20,000, sold for \$20,000, appreciated so that it stands at the book value \$25,000? A.—If you take a hypothetical case like that—

Q.—I thought at the beginning that the question was hypothetical, because I did not suppose you would have an actual case like that? A.—No, we have no actual case.

Q.—That would be the result? A.—Certainly.

Q.—That would follow in all cases of appreciation where the result of realization is to produce less than the appreciated value? A.—Where you realize on it.

Q.—You leave the item standing at that, at book value irrespective of the market fluctuation? A.—Yes.

Q.—Are there cases in which there should be some alterations made in the book value by reason of the approaching maturity, take municipal debentures, for instance? A.—I will explain that to you; we have not our debenture book here, I will send for it.

Q.—I do not think you need to do that? A.—Our method is this: a debenture is purchased at a premium; a debenture earns $4\frac{1}{2}$ per cent., it is purchased to pay $4\frac{1}{2}$ per cent., consequently out of each annual payment of interest—say it is a twenty year debenture—each annual payment of interest you require to write off a certain amount of principal, so that at the end of the term the premium that has been paid becomes zero. Our practice is this, in our debenture book we have besides the debit and credit, we also have the column of the amount of each instalment of interest divided, so much paid to principal, and so much paid to interest, that is run out for the whole term.

Q.—The result of that is to bring you to the end with a value which is par? A.—Exactly.

Q.—So that it shows the receipt of the actual par? A.—Exactly; that I should think is the custom in every properly managed company.

Q.—My agreement with it is neither here nor there, but I should agree with that; supposing the debenture or other security is in course of maturity before

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it matures, supposing default is made in respect of the payment of the interest or dividends upon it, how would that affect the propriety of what you have spoken of? A.—It is a very hard question to answer, because we have never had such a case.

Q.—You have never had a case in which a security you held defaulted in interest? A.—We have never had a bond or debenture in which there has been default in interest.

Q.—You say it is a hard question to answer, because you have not had to deal with it in practice? A.—No.

Q.—If you had not thought about it I do not know that I would trouble you to answer that? A.—No, I do not see the purport of it as applied to us, because we have had no experience.

Q.—It might apply to others, but it does not apply to the North American? A.—If we have any sins to answer for we are glad to admit them; of course that opens up a broad question.

Q.—I was desirous, if I could, to get from you just a statement of the proper principle upon which an insurance company ought to proceed in such a case, but if you have not considered it I won't trouble you with it? A.—On that point if you desire information you might get it from the Standard Life, because they had a suit in connection with some one of those small towns down east in consequence of the default in payment of interest and principal, and I think they had to get some legislation in connection with it.

Q.—There is just one other feature I have to ask you about, if you have considered it; supposing there is a fluctuation in the market value of such a security as we are speaking about, due not to any imperfection in the security itself, but due merely to an alteration in the current rate of interest, would that have any effect at all upon the proper practice to be pursued in respect to what you have told us? A.—Supposing a company carries its assets at the market value at the end of one year, and take the year 1903, when there was a serious slump, gilt edge securities went down ten or fifteen points, and it would be the duty then to adjust its assets accordingly.

Q.—Take one asset by itself, take a municipal debenture, in the municipal debenture as to which you have no doubt whatever that in the end you will get all your interest and all your principal; supposing in the mar-

ket that debenture cannot be sold for what it could last year, because the rate of interest is more stringent, would that have any effect upon the propriety of keeping track of your interest and your principal in the way you have stated? A.—No, not if a company entered the security at its book value of its cost value.

Q.—Which of course you did in the illustration you were giving me? A.—Yes, every one of our debentures are entered at cost value.

Q.—You would not make any alteration in your book-keeping by reason of any fluctuation due entirely to the change in the rate of interest? A.—No; there is a reason for that; you purchase a security, a debenture, to pay a certain rate of interest, and you leave it at that till maturity; and it does not affect your position whether it is in the market only worth 98 or 97; you know at maturity it is going to be par, and you are holding it; and of course there is this addition, in a company that was trucking and trading its securities the position might be different, but taking our own company we have never sold a debenture, we have never traded a security; they are bought for permanent investment.

Q.—You buy to hold? A.—Yes.

Q.—I am of course only dealing with the practice that would be proper in a properly conducted company? A.—Yes.

Q.—Let us come back to the main channel again, this profit and loss statement for 1905. You have among your gains here reserves released by surrender and lapse less surrender value allowed so much, making a total gain of the difference ninety thousand odd dollars? A.—Yes.

Q.—I want to ask you a question or two about gain on surrenders and then a question or two about the gains on lapses. The gains on surrenders—I should remind you first that you told me yesterday that the reserves on the business for 1905 have temporarily at all events to be made good out of the moneys attributable to other policies? A.—Yes.

Q.—This gain by reason of the surrender of a self-supporting policy will go in the first instance to make good, I mean theoretically at all events, it will go to make good the loss which it has temporarily sustained by virtue of having to make good the reserve for 1905—that is right, is it not? A.—If you will allow me I will answer the

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question in my own way; you are now touching on an actuarial point. It has been the recognized practice by the leading actuaries in Great Britain that whenever a good life leaves the books of its own accord it should leave something behind to assist the company to re-place that life with an equally good one; that is known as a surrender charge, and therefore when a man applies for a cash surrender value, which all the companies now grant, but used not to do, they make a charge on him for deserting the ranks of the policyholders of the company, and that may be justly used towards re-placing new lives on the books.

Q.—That is another question, but that enters into what you are just telling me; in respect of policies which lapse after the payment of one premium, as you told me yesterday, there is always a dead loss? A.—It has been provided the previous year.

Q.—There is a dead loss in respect of that particular policy, that is that particular policy has not paid its own way? A.—I mentioned yesterday that any policy issued by a company now does not pay its way the first year.

Q.—That is what I am speaking about; therefore if it lapses after the payment of the single year's premium that is a loss that is never made good at the expense of that policy? A.—Of course there must be a beginning, at least we assume so; at the beginning a company has provided certain reserves for one year, for certain policies, never mind from what source that came, that is at the out-set; if the policy is not kept up the second year, that sum falls into the company's hands, it is still in reserve, and it assists to place the reserve on a new policy.

Q.—It is not sufficient to do it of itself without any aid from other sources? A.—It is a large assistance and then you have—

Q.—But it is an assistance? A.—Certainly it is.

Q.—And that does not make the policy which lapses at the end of the first year clear of debt, that is you are keeping an account of that particular policy, between that policy and the company, what you received in respect of it and what it has cost you—A.—Theoretically sir, you can put down one and demonstrate something, in actual practice you cannot work it that way.

Q.—Tell me whether that is so, because that is another matter I should

have thought that was not open to controversy, that if you keep an account with the policy itself as between the policy and the company, what it has realized to the company, what it has cost the company—A.—We do not keep an individual account of each policy.

Q.—But if you did? A.—We group them.

Q.—If you did keep an account with the individual policy that policy lapsing at the end of the first year without the payment of a second premium would be on the wrong side of the account as far as the company is concerned? A.—Every one knows that it does not require an insurance expert to answer that.

Q.—An insurance expert can answer it perhaps with more effect? A.—Well.

Q.—Are the reserves which are put up in respect of the business, 1904 for instance, the reserves put up in 1904, affected by these reserves released? A.—This is 1905.

Q.—No, 1904, the year prior to 1905, reserves released by surrender and lapse? A.—They are released during 1905.

Q.—But they are reserves in respect of previous years? A.—Yes.

Q.—You understand what I mean? A.—Yes; of course the policies have gone off the books.

Q.—Yes, otherwise they would not be surrendered or lapsed? A.—Yes.

Q.—But those reserves which are released are reserves in respect of other policies than policies issued in 1905? A.—Certainly.

Q.—In your gains by reserves released by surrender you include moneys that the company makes by the surrender value not being claimed, do you not, by those who, according to their policy, are entitled to that? A.—No, they would come under the head of lapses.

Q.—I will keep them under that head, and I will come now at once to that head, lapses; you have a form of policy—this is your present standard form of policy of the class? A.—Yes.

Q.—This is at the age of 24; there is a provision in the policy "That after the payment of three full years premium the insured or the legal holder hereof, shall be entitled to paid-up term insurance on the terms and conditions provided in clause (F) hereof." "(2) If after the payment of three full years' premiums this policy shall lapse as indicated in provision (C) hereof

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the company will upon application, the payment of all indebtedness hereon"—that means if there is a loan on the policy? A.—Yes.

Q.—"And the surrender of this policy and the last renewal premium receipt, within three months after such lapse, endorsed hereon the amount of non-participating paid-up insurance to which the legal holder may become entitled as stated in the within table, or pay its cash value as specified in said table?" A.—Exactly.

Q.—You observe that that makes it necessary for the holder of the policy, once he has failed to pay his premium, to make an application to you for the surrender value? A.—That is the contract.

Q.—And it requires him to make that application within three months? A.—Yes.

Q.—If the three months go by that is not refunded to him according to the contract, he does not get the surrender value, that is the plain provision? A.—That is the contract.

Q.—Then in your gains by reason of reserves released by lapse you include such things as those? A.—Yes, exactly.

Q.—Those are gains which manifestly are made at the expense of policyholders other than the policyholders who insures in 1905? A.—Yes.

Q.—We will look at provision (C): "If a note, cheque, draft or other obligation given for the first or any subsequent premium or any part thereof, or any renewal of any such note or other obligation or part thereof be not paid when due the policy will thereupon cease to be in force without any notice or act on the part of the company." You see when you have turned back to paragraph 2: "If after the payment of three full years' premiums this policy shall lapse as indicated in provision (C)"—that is by virtue of non-payment of note, or cheque or other obligation given for premium? A.—Yes.

Q.—Supposing there has been no cheque or note or other obligation given for the premium, does paragraph 2 of your policy apply, in your practice do you make it apply? A.—Let me understand you.

Q.—You see it says if this policy shall lapse as indicated in provision (C); supposing there is no note at all, but it lapses by virtue of non-payment of the premium, what is your company's practice? A.—The policy ceases to be in force, and he has the

right to apply within three months for the surrender value.

Q.—In practice you make this paragraph 2 apply to that case? A.—It is contractual, it is dependent upon the payment of the premium.

Q.—This is clause 1—application within the three months is required? A.—That is after three full premiums have been paid.

Q.—I am speaking of that case, because if three full premiums are not paid then that does not arise? A.—No.

Q.—In practice you treat paragraph 2 of your policy as applicable to cases not only where there is default in payment of note, but where default in payment of premium occurs for which no note has been given? A.—Certainly. Would you allow me to say there, because as you are aware the continuance of the contract depends upon the payment of the premium in some form or other.

Q.—I want to call your attention to conditions (B) and (F). Condition (B) is (Reads): Condition F is (Reads). You observe that that only provides for the term insurance? A.—You see he has the option.

Q.—And (F) by itself only provides for the term insurance? A.—Yes.

Q.—And that must be applied for within the period of grace? A.—No, within a period of six months.

Q.—No, he can do it after the period of grace within six months by giving satisfactory evidence of health? A.—Yes, that is what I meant.

Q.—Supposing he gives no satisfactory evidence of health, he has to do that within the period of grace? A.—Yes.

Q.—Or do you apply paragraph 2 of the main body of your policy to him? A.—No, that extended insurance, as it is called, is not automatic, it does not go into force unless the contract is complied with and he applies for it.

Q.—Then he has to apply for it within the days of grace? A.—Yes.

Q.—He does not get any three months then? A.—No.

Q.—If he has not given a promissory note for his premium he has only the days of grace? A.—That is all, that is the contract.

Q.—I am trying to get if possible from you the views you entertain about this policy, because it will be the duty of the Commission hereafter to enquire into that. I find a heading on the third page of the policy: "Table guaranteed loans and surrender values as

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stated before." "After three or more full years' premiums shall be paid, and during the continuance of this policy, the legal holder will be entitled to a surrender value in paid-up or extended insurance or cash or to a cash loan as indicated in the following table"—does that stand by itself as a guarantee, or is that involved with other conditions of the policy? A.—That is involved with the other provisions.

Q.—That would be your construction of it? A.—My construction and practice is that with regard to the cash value and the paid-up insurance he has the time in which to apply for it.

Q.—When you say time, the three months? A.—The three months, yes, but with regard to the extended insurance it must be applied for within the days of grace.

Q.—This says, "After three or more full years' premiums shall have been paid and during the continuance of this policy?" A.—Yes, but that would not over-ride the conditions of the contract.

Q.—But the conditions of the contract only apply in terms to the case where there is a note outstanding? A.—We apply it in this way—

Q.—A moment ago you said if there was a note outstanding under F you would only give him the difference, of course? A.—If there was no note, that is the extended insurance, that is correct, but so far as paid-up and cash value is concerned there is time in which to apply for it.

Q.—Paid-up or cash value, I understand now what you mean, the paid-up or cash value you will allow him although it says during the continuance of this policy, you will allow him the three months? A.—Certainly.

Q.—Applying paragraph 2 of the policy to it? A.—Yes.

Q.—If he asks for term insurance only that he has to apply for? A.—During the days of grace.

Q.—In any case he has to apply? A.—Exactly.

Q.—Have you a considerable body of the lapsed policies in respect of which the policyholders omit to make application, and in respect to which you get all the reserves? A.—I could not answer that, for I have not examined into those details lately, but our experience is this, that, and I think it is common with all companies, that the termination of a policy, the terminations the first year are the heaviest; there are some terminations the

second year, then the third year they are comparatively light.

Q.—These cards are a few of a very considerable number which have been furnished us by your people—you recognize what these cards are? A.—Copies of our cards.

Q.—This is the case of a gentleman who is insured for \$5,000, it was a twenty-life policy? A.—Yes.

Q.—Then the premium was \$155.50. He paid seven premiums, the reserve on his policy was \$624.20—stop me if I am going wrong—the cash value or guaranteed table of values would be \$351; that is given us as an instance of money not claimed and which the company has kept, do you recognize that—may I put it so upon the notes? A.—Why certainly, whatever comes from our office we are willing for it to go on the notes. I happen to know something about this case, and this party is living in England, he formerly lived in Toronto; we corresponded with him, did everything we could to induce him to apply for re-instatement and to deal with the policy, and he would not do anything; that is all there is to that, as far as I remember.

Q.—Do not say that is all, because I understand these are the forms which you send out when a premium has been allowed to go by, are they? A.—That is in the case of a note.

Q.—Take the other one? A.—That is a note also.

Q.—You will perhaps tell me whether there is any difference in the form of notice where it is not a note? A.—It might be adjusted, I am not certain about that.

Q.—Perhaps I had better get this from somebody in your office? A.—Yes.

Q.—What I call your attention to is in the form of notice you have adopted, you do not intimate to the person to whom you send the notice that he has to make any application within any particular time—you observe that? A.—We have a form, it should be here, that we send out.

Q.—I would like to see such form if there is one? A.—We have a form in which we send out for parties to apply for re-instatement, urging upon them to do so.

Q.—That is a different thing; I want to know whether there is any notice you send out in reference to a person to whom it is sent that he will not get the surrender value which you have guaranteed to him unless he makes an application for it within a

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certain time? A.—I do not know that we have.

Q.—Here is another; a lady who took a fifteen year endowment policy, who paid six premiums, the reserve on her policy was \$318.08; the cash surrender value was \$209.60, and that she forfeited by not applying? A.—I suppose that is correct.

Q.—Another case, a 20 year life policy, paid seven premiums, the reserve was \$134.34, cash value \$76.17, and no application made, and the cash value retained by the company. Another, a 20 year life policy for \$1,000, nine premiums paid, the reserve \$177.33, the cash value \$104.45; no application made, money retained. This is the last I shall put upon the record. Here is a case of a twenty year life policy for \$1,000 by a gentleman in New Brunswick, 13 premiums paid, the reserve \$262.88, the cash value \$165.88, and the cash value retained, never applied for.

Q.—MR. SHEPLEY: I will put in the form of policy I referred to. (Marked as Exhibit 135); also the two forms of notices (Marked as Exhibit 136), and this bundle of cards (marked as Exhibit 137).

JUDGE MACTAVISH: Have you another form of notice? A.—Yes; we will put them in.

JUDGE MACTAVISH: They can be attached to exhibit 136.

MR. SHEPLEY: At page 166 of the Executive Committee book this has just been collected at random, 1901, at a meeting of the Executive Committee two claims were considered, and one of them was manifestly a lapse, because it says: A letter from a certain firm of solicitors re policy number so-and-so on the life of Mr. So-and-So, was lapsed on the 5th February, 1901, for non-payment of premium, was considered, and payment of the surrender value thereof as a special case was approved; are you aware of what circumstances create a special case for the purpose of waiving this lapse? A.—I do not know this special case, but of course it would be within the power of the directors to do that, and there would be special circumstances; for instance we will take a hypothetical case, supposing a person entrusted another with a premium to pay to the company, that person failed to pay it for the insured; the insured subsequently dies, and those facts were brought out, it was through no fault of the insured; that would be a case for special consideration.

Q.—That is not a case perhaps exactly of the kind I am speaking of;

supposing a policyholder does not die at all; if he did not pay the premium and more than three months go by, what circumstances would make a special case for the waiving of the application within the three months—if you do not know any special case yourself you perhaps cannot answer it, except hypothetically? A.—Of course so many cases arise you have to take each particular one on their merits.

Q.—Does your company—you can answer me this—does your company in the majority of cases waive that three months so far as the surrender value is concerned, or does it in the majority of cases adhere to the requirement of three months' notice or whatever notice is required? A.—I do not think we strictly adhere to it.

Q.—When you say you do not think so what have you in your mind, have you any definite practice upon the subject, or are you just speaking as it strikes you without regard to what has been done? A.—I know the rule has been waived.

Q.—But you do not know how often? A.—No.

Q.—Do you know also that the company has declined to waive it in other cases? A.—Yes, under certain circumstances.

Q.—When you say under certain circumstances what have you in your mind? A.—That is to say, supposing four months had elapsed and a person gave special reasons why they had been unable to apply for the surrender value their case would be considered on its merits, supposing one year had elapsed their application would be declined.

Q.—Mr. Patterson asks me to ask you whether you remember a case where a note was sent and not received? A.—Yes, I do remember a case of that kind.

Q.—And that was considered, I suppose Mr. Paterson intends to bring out, a case in which you would waive? A.—Yes.

Q.—You cannot of course give me an approximate idea of the amount which the company makes by reason of the failure to apply year by year? A.—No, I could not.

Q.—You could not give me it in percentages, say in the year 1905 you could not say what percentage of the amount shown on this profit and loss statement would be made in that way? A.—No, but if it was desired we could have an analysis made of it.

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Q.—You see that of course includes surrender? A.—That is the margins from surrender.

Q.—\$220,000 of reserves released and the surrender values which have been allowed are only \$130,000, you cannot tell me of course what proportion of the \$90,000 so saved would be in respect of these moneys like this? A.—Well, it would only be a moderate sum.

Q.—It would be something? A.—It would be sure to be some trifling sum.

Q.—I would rather you would put it moderate sum, because you are only guessing at it? A.—It is immaterial to me.

Q.—Had you any connection with the framing of that policy in the way it is framed? A.—No.

Q.—Do you know anything about it by reputation in your company or otherwise? A.—Yes.

Q.—Why was it thought desirable to compel an application for guaranteed cash surrender value within a specific time otherwise forfeiture? A.—I suppose because it had always been the practice of the company.

Q.—Can you say anything by way of reasoning to justify such a practice as between the company and the persons whom it has insured? A.—I have nothing to say outside of the contract.

Q.—But do you justify the contract as a fair contract, and if so upon what grounds? A.—It is a matter of contract, and we give the party a certain time in which to apply for that surrender value; if he fails to do it it is a benefit to the other members.

Q.—I suppose you are not one of those who think that the great mass of people who insure read and understand every clause in their policy, you know that is not so, don't you, that the great mass of people really do not appreciate the niceties of their policies at all? A.—You can go further than that and many of them do not know the name of the company they are insured in.

Q.—The less will be absorbed in the greater? A.—I think so.

Q.—Give us your opinion as to the fairness under those conditions, knowing that these niceties of expression in a policy are not appreciated by the person who holds the policy in the great majority of cases—do you still consider it fair to apply to him that sort of contract? A.—We make every — the agent and also ourselves make

every effort to induce the party to renew.

Q.—But that is not quite getting to my point; if he is financially unable to renew? A.—Well, the cases you have quoted are exceptional.

Q.—I am inclined to accept that too; but they might happen to a great body of policyholders if they had nobody to advise them; is it a usual provision among other companies? A.—Well, companies have different contracts.

Q.—You can tell me whether that is a usual provision? A.—As to the cash surrender value?

Q.—As requiring application to be made within a specific period, otherwise no guaranteed cash surrender value paid? A.—I believe it is so in many companies.

Q.—Just one other question, do you think it is fair to frame a notice after a premium has been left unpaid, which omits to state to the person who has failed to pay the premium that if he is to get the benefit of his contract he must make an application within a certain time—would you rather not answer that? A.—I really have not considered it, because our practice has been to follow them up closely.

Q.—To follow them up closely to get them to pay the premiums? A.—Yes, so that I really have not considered the other points.

Q.—Not to follow them up closely to give them their cash surrender value? A.—Yes, we are desirous of doing so every time.

Q.—Mr. Paterson asked me to put a question to you, I have no objection to doing so, but I should have thought the answer was patent to everybody; supposing a man does not pay his premium, is it to the advantage of the company to get him to pay it, or is it to the advantage of the company that he should let it lapse? A.—It is to the advantage of the company to have him renew it, and I think every company makes a strong effort in that direction.

Q.—I leave that, and we will return to the main channel again; the next question I ask you about this profit and loss statement for 1905 is this; if your Company adopted the method of dividing its profits yearly would the effect— A.—(Mr. Goldman speaks to Mr. Shepley aside).

Q.—MR. SHEPLEY: Mr. Goldman tells me I had better take that up with Mr. Kilgour.

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MR. GOLDMAN: We would only have to go over the same work twice.

MR. SHEPLEY: Would you rather I take up the significance of this summary of lapses with him also? A.—Yes.

Q.—This is, I understand, the loan agreement which is made when you lend upon policies? A.—Yes.

Q.—That is the present loan agreement; we are furnished with two loan agreements which have been formerly in force which have now been discontinued? A.—Yes.

Q.—So that we have here altogether three forms of loan agreements, two of which have been discontinued, and of which is the current form in use. The current form in the third paragraph provides as follows: (Reads). You appreciate the force of that? A.—Yes.

Q.—If the interest is not promptly paid then you have the right to make the whole principal due? A.—Yes.

Q.—Irrespective of the death of the person altogether, and irrespective of the due date of the loan arriving. Then paragraph 5 is (Reads paragraph 5). You see that clause? A.—Yes.

Q.—What is the object of that clause? A.—Just what it says, to compel payment of the interest.

Q.—Or to compel payment of the premium? A.—Both, of course.

Then comes the sixth paragraph, "In the event of default in payment of the said interest or of said loan, or of any premium on the said policy for one month after they respectively shall become due, the said policy shall be deemed to be and shall be in effect, at the option of the said company, surrendered to the said company, without any notice or any act by either party hereto, at the customary cash surrender value then allowed by the company for the surrender of policies of this class, the said company in that case being liable to the said borrower for the return of the balance only," etc., "after deducting interest and other expenses." Why was it thought desirable to bring about an automatic surrender to the company without notice, if interest was not paid? A.—Well, the party has been given notice, and then he is also given a second notice, giving a month's grace.

Q.—There is no month's grace on the interest? A.—There is a month's grace on the premium.

Q.—No month's grace on the interest; and then it says, "In default of the payment of the interest for one

month after it becomes due the policy is to be deemed to be surrendered without any notice or any by either party?" A.—Is that not a month's grace on the interest?

Q.—I will accept that? A.—That runs concurrently with the premium.

Q.—It runs concurrently with the month's grace on the premium? A.—Yes.

Q.—"In event of default in the payment of the interest for one month after it becomes due the policy is to be deemed to be surrendered to the company without any notice or act by the company or by the insured?" A.—Yes.

Q.—What do you say about that? Why did your company think it desirable or proper to compel the automatic surrender of a policy upon which a loan has been made, if interest was not paid within a month after it became due? A.—Well, we give the party the option to apply for re-instatement, and we must have a termination of the contract some time; we cannot keep them outstanding forever.

Q.—Can you imagine such a case—because there must, of course, be such cases—where interest may be in default for a month without any default of premium at all? A.—Well, it is so many years since I have had to do with the details that I could not answer definitely.

Q.—Supposing the interest is payable on the 1st February in any particular year, and supposing the premium is not payable till September? A.—Ah, but allow me to explain: to prevent anything of that kind occurring, when we make a policy loan, it is made so that the premium and the interest fall due on the same day.

Q.—Is that your invariable practice? A.—That has been our practice for years, to prevent just such a thing arising as you have mentioned.

Q.—In other words, to make the whole thing consistent, so that the forfeiture or lapse or surrender may be brought about automatically? A.—Yes.

Q.—"If the loan or any part thereof shall be unpaid on the date at which said loan becomes due and payable, or at the time of the decease of the party, the company is liable for the payment of the balance of the proceeds, after deducting the amount unpaid and all other indebtedness." Then there is the other condition, "All the conditions, limitations, and requirements of the policy, except as

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hereinafter modified, remain in full force?" A.—Yes.

Q.—If the cash surrender value of the policy exceeds the amount of the loan, so that there is a balance coming to him, the three months' clause and the one month's clause in the policy will apply? A.—Yes.

Q.—And he must make application within these periods or he loses that? A.—Yes.

Q.—I suppose you do not lend up to the full surrender value of the policy? A.—Well, we lend up to within almost the full surrender value, yes.

Q.—You do not lend all the surrender value; you retain a margin? A.—A very small margin.

Q.—And the surrender value of the policy increases from year to year? A.—Yes.

Q.—And after a loan has been on foot for three or four years you have ample security, of course? A.—Oh, yes.

Q.—Then when the security is ample—it is always in a sense ample—but when it becomes ample, why retain a provision which enables you to appropriate the margin in the security for want of an application? Does that seem fair to you? A.—Well, we make an effort to reach the party.

Q.—To get him to pay? A.—Yes; and he has the opportunity to apply, and it is unnecessary to say to you as a lawyer that we must have a contract at the outset to protect the company.

Q.—Oh, of course? A.—And you cannot change that from year to year.

Q.—Your former loan form, the first one that I look at, has this clause in it, "Provided that the said policy shall lapse and cease and determine in case of any default in the payment of any interest or principal, but the company may, at its option, reinstate the same on application in writing, and satisfactory medical evidence, etc., approved by the company, but if the said policy lapses, as aforesaid, the said company shall pay its cash surrender value, computed according to the company's rules, in satisfaction in full of the policy, and deducting principal and interest due on said loan." There you bound yourself to pay the margin of the surrender value. Why was that departed from? A.—Yes, that is an old form. I cannot tell you why the change. It may have been under the solicitor's advice.

Q.—Then the other form, in former years, has the same provision in it. You do not suggest do you, that under

those forms, in respect of the matter that is being spoken of, the company ever suffered any loss? A.—I do not know.

Q.—Or was ever at any disadvantage? A.—I do not remember. We are anxious to have the policyholders maintain their policies. We make every effort in that direction.

(Three loan forms filed as Exhibit 138.)

Q.—We have had certain figures furnished us with respect to the results at certain ages in respect of certain forms of insurance? A.—Better take that with Mr. Kilgour.

Q.—Then perhaps I had better also take with him the proportion of policies reaching the end of the investment period? A.—Yes, it all comes in that.

Q.—No, this is a matter which has something to do with that, but I must take it up with you as far as I can. You will remember the case of a man named Douglas in October last year, with whom you had some correspondence? A.—Yes, I remember something about it.

Q.—It arose in September, and I think was not finally concluded until March of this year, I will just ask you to verify this correspondence as I read it and put it in. Your agents in Dawson are Seers & Smith? A.—Yes.

Q.—And this is a letter written by you to them on the 9th September, 1905? A.—Yes.

Q.—"This policy matured on the 5th ultimo, but through oversight the usual notice was not sent forward. We are, however, enclosing the company's cheque," etc. Then you have a letter to your secretary of the 14th October, "I am in receipt of a communication from Messrs. Seers & Smith, of Dawson City, that they have received cheque for \$947," etc. "They state that Douglas refused to accept the cheque." That is right? A.—Yes.

Q.—Then on the 23rd October you answer that letter "We have your favor of the 14th," etc. "As surmised by you, the policy was issued on the ordinary quinquennial system," etc. Then there are some letters which I need not read. On the 13th January Seers & Smith wrote you "Your favor of the 15th to hand. F (Reads) Then you send the policy. "Although we have succeeded in having Mr. Douglas accept the cheque, he is anything but satisfied with the settlement and has done considerable talking about

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it." Now, it is about those bonus additions that I want to ask you. Can I ask you about those, or shall I leave it for Mr. Kilgour? A.—I can answer, but it would all come under his examination, so you might as well leave it.

Q.—What I want to ask you is this: upon what basis were these bonus additions made? What was the method adopted in arriving at them? A.—Mr. Kilgour has prepared all that.

Q.—I want, however, to call your attention to this, so that it may be appropriately upon the notes just here. It was a twenty year endowment: do you remember the age? A.—No, I do not.

Q.—You do not remember the age? A.—No.

Q.—I will have to get somebody who does? A.—Yes.

(Correspondence Exhibit 139.)

Q.—Then with regard to those matters, had I better reserve those for Mr. Kilgour—that is the answer that has been made? A.—Oh, yes, it is all under the same head. It is only a repetition.

Q.—And you know perhaps about the Forbes matter, which is quite recent, within a year? A.—I do not remember it; no, I do not remember.

Q.—Do you recognize that at all? Are you able to discuss this formula for arriving at surrender value? A.—Well, you had better leave the whole thing with Mr. Kilgour.

Q.—Perhaps you can tell me whether that is a formula in ordinary use, or peculiar to your company? A.—No, it would be an ordinary formula.

Q.—Our information is somewhat different to that. However that is neither here nor there for the present? A.—You have reference, Mr. Shepley, to the formula for the cash surrender value?

Q.—Yes? A.—Yes, that was our old formula, and to bring it down to a practical term, it is known as five per cent. of the insurance value, but Mr. Kilgour will answer as to that.

Q.—Now, there are some forms of insurance which you adopted I want to ask you a question or two about. You have what is called the five per cent. guaranteed debenture policy? A.—Yes.

Q.—And you have what is called a seven per cent. guaranteed income bond? A.—Yes.

Q.—Is there anything in these titles in your view to indicate that you are guaranteeing five per cent. and seven per cent. respectively? A.—Yes.

Q.—What is the nature of the insurance; take first the five per cent. guaranteed debenture policy, what is the nature of that, speaking generally? A.—It is a policy at maturity by death, or if on the endowment plan, at the expiration of the term under which the company, in lieu of the policy, issue a debenture, to which is attached forty coupons, so that if it was \$10,000, it would be \$250 each half year, and at the end of twenty years will pay the face of the policy \$10,000.

Q.—What premiums do you charge, or, rather, let me put it in another way: what amount of insurance would be represented by the premiums which you charge, if you were insuring without regard to this provision for interest or income? A.—I will tell you that in a minute.

Q.—For instance, supposing you issue your debenture policy for \$1,000? A.—Yes.

Q.—What insurance on the other plan would the premium that you charge buy? A.—Take an age 35, a five per cent. debenture policy, paid by twenty payments, would cost \$45.75; an ordinary twenty payment life policy at the same age would cost \$36.95.

Q.—I would rather, if you can, you would put it the other way. Take your \$45.75 premium, and tell me what insurance would be bought under the other plan? A.—It would purchase about \$1,240.

Q.—That is, if the man were insured in the ordinary way, at the expiration of the period he would be entitled to \$1,240 for that premium? A.—At death.

Q.—That is what he would be entitled to, \$1,240, for the same premium? A.—Yes.

Q.—Then take two men, one of whom buys this sort of insurance, and the other the ordinary sort of insurance, and supposing they are the same age, paying the same premiums and insured for the same amount and die on the same day; one man will get in cash \$1,240? A.—Yes.

Q.—And the other man gets what? A.—\$1,000.

Q.—Not then? A.—No, he gets a debenture payable in twenty years for one thousand dollars, with the coupons attached for another \$1,000.

Q.—That is five per cent.? A.—Yes.

Q.—He gets \$15 a year for twenty years, and then he gets his principal, the \$1,000? A.—Yes; that is the

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beneficiary; one is exactly the equivalent of the other.

Q.—Don't say that yet. Why is it the exact equivalent of the other? A.—Because the payment of the \$1,248 or \$1,240 would purchase that debenture.

Q.—At what per cent.? A.—At the five per cent.

Q.—At five per cent. would it? Do you say so, or is it $3\frac{1}{2}$? A.—At $3\frac{1}{2}$ yes.

Q.—At $3\frac{1}{2}$ per cent.? A.—Yes.

Q.—Does it strike you that there is anything misleading about calling that a five per cent. guaranteed debenture under those circumstances? A.—I do not think so. We set forth in our literature exactly what it is.

Q.—One man gets \$1,240, and with the \$240 he can buy at $3\frac{1}{2}$ per cent. another \$1,000 at the end of twenty years, he can buy another \$1,000 spread over the twenty years; in other words he can buy an annuity of \$50 a year for 20 years. The other man is told he has got a five per cent. guaranteed debenture policy, where it is five per cent. on \$1,000, not upon \$1,240. Do you still think that that is not misleading? A.—I do not think so.

Q.—Take your seven per cent. guaranteed income bond—perhaps I should ask you another question which would be common to both—of course what you are earning interest on yourselves is upon the reserve so far as these premiums are concerned? A.—Yes, exactly.

Q.—And you are not earning interest at anything like five per cent.? A.—Very close to it.

Q.—You are not earning it at five per cent.; I think you told me yesterday four and a fraction? A.—At \$4.85 on the mean amount of assets, but if you take the reserve alone it would be just about five per cent.

Q.—Take your seven per cent. guaranteed income bonds—what is the general nature of that insurance? A.—That is the contract under which it is issued on the fifteen and twenty year plans. If the insured lives to the end of the term the policy becomes paid up in its terms; he is entitled to withdraw the accumulated profits in cash, and he receives an annuity for life on the face of the policy, and the policy is paid at his death.

Q.—What has seven per cent. to do with it? Is that similar in principle to the five per cent.? That is, is there a sum provided which, at three and a half per cent., will give the

amount that is carried over? A.—Well, roughly you can put it that way but really what is called the seven per cent. bond is the ordinary fifteen or twenty year endowment with an annuity premium added to provide the annuity or part of it.

Q.—The annuity premium that you add would be sufficient of course at the end of the endowment period to give more than \$1,000? A.—Oh, yes—not the annuity premium itself, the total premium.

Q.—The premium when increased by the annuity premium? A.—Yes. Of course as an illustration, take at age 25, a fifteen year bond; while the party insured for \$1,000 only, at the end of the term, if he does not wish to have it paid up and take the seven per cent. annuity, he is entitled to the guaranteed cash value of \$1,673.

Q.—These are little printed pamphlets issued by you? A.—Yes.

Q.—One of which is the five per cent. guaranteed policy, and the other is the seven per cent. guaranteed income bond? A.—Yes, pertaining to those plans.

MR. SHEPLEY: I will put in the form of each of these policies. I have only the seven per cent. guaranteed bond; I want the other, the five per cent. debenture policy, and I will put in the four, and the two little pamphlets, and the two forms of policy as one exhibit. (Exhibit 140.)

Q.—Now, I pass to an entirely different subject. You have in your Act of Incorporation, as we pointed out yesterday, or rather in one of your Acts of Incorporation, you have a power in respect of investments in the United States, and the provision in your Act of Incorporation is "But the amount so invested in the United States shall not at any time exceed the reserve upon all outstanding policies in force in the United States?" A.—Yes.

Q.—That is the limitation, according to your Act of Incorporation? A.—Yes.

Q.—You are, of course, familiar with the provisions of the Insurance Act upon the same subject? A.—Yes.

Q.—And they are found in section 50 of the Insurance Act? A.—Yes.

Q.—We will refer to those, so that we may have them fresh in our minds before I ask you about your foreign investments; subsection three of section 50—

"Any such life insurance company may invest in foreign securities or deposit outside of Canada such portion

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of its funds as is necessary or desirable for the maintenance of any foreign branch, provided that such investment, when not required by the law of the country where such branch is established, but deemed desirable in the interest of such branch, shall not exceed \$100,000 Canadian currency."

Then subsection 4 reads—

"Any such company doing business in the United States, in the event of the reserve or reinsurance value upon its outstanding policies in force in the United States exceeding the amount which may be invested or deposited under the authority of the next preceding subsection, may invest a portion of its funds in the purchase of certain securities which are named—(certain United States securities)—but in such event the amount so invested or lent in the United States, including any sum invested or deposited under the authority of the next preceding subsection, shall not at any time exceed by over ten per cent. the said reserve or reinsurance value of its policies in force in the United States, such reserve to be calculated upon the basis prescribed in this Act."

Do you conceive that you have any power of investment under the Insurance Act in securities in the United States otherwise than under the section I have just referred to? Do you conceive that the subsequent sections help you at all, or modify at all the provisions of these sections? A.—I have always been guided by legal advice on that.

Q.—You will know what section you have been working under? A.—Yes.

Q.—Have you been working under any powers derived otherwise than in your own Act and in the sections I have just referred to in the Insurance Act? A.—We have been guided and worked under the sections of the Act of 1899.

Q.—To which I have referred, or are there others to which I ought to have referred? A.—I think those you have referred to.

Q.—Let us see if we agree. In your own Act you were limited to foreign investments equal in amount to your foreign reserves, or reserves in respect of your foreign insurance? A.—Yes.

Q.—I use the word "foreign" always meaning the United States? A.—Yes; they are United States bonds.

Q.—Under the Dominion Act, the general Act, where you are exercising those powers, you are in a position to

fluctuate to the extent of ten per cent. you could exceed the amount of your reserves by ten per cent? Do you agree with that as the construction of these sections? A.—No, I do not.

Q.—In what respect do you disagree? A.—I disagree on the ground that we have a right in additions under section 3.

Q.—To which I have referred? A.—Yes.

Q.—To do what? A.—To maintain a certain amount for each branch.

Q.—You observe that in the fourth section, which follows the third, to which I have just referred, the language is "In such event, the amount so invested or lent in the United States, including any sum invested or deposited under the authority of the next preceding subsection—that is section 3? A.—Well, of course, it is entirely a legal matter, and I was guided by our solicitors entirely about this matter.

Q.—At present I am not at all concerned to quarrel with what you have done; I want to find out what you have done and what your views have been as to your powers? A.—My views, under the advice of Mr. Grant, who went into this matter with me from time to time, are covered in my letter of March 3rd, 1906, to Mr. Fitzgerald.

Q.—Then that is already upon the record, and we need not perhaps duplicate it? A.—No.

Q.—At all events, there we will find the view which is by you entertained on behalf of your company? A.—Exactly.

Q.—That is not only your view, but it is the company's view? A.—Necessarily.

Q.—Necessarily the company's view? A.—And confirmed from year to year by being passed by the department.

Q.—I do not want to ask you to express a legal opinion at all, but will you just look for yourself at the sections to which I have referred—I dare say you are familiar with them? A.—I am familiar with the wording of them.

Q.—What significance does your construction give to those words "Including any sum invested or deposited under the authority of the next preceding section? A.—Taking the two sections 3 and 4 together, it is a technical point involved, and I would not like to give an opinion.

Q.—The words "Invest" and "deposit" correspond with the two branches of subsection 3; first you may

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invest any portion of the securities?
A.—Would you allow me to take a hypothetical case?

Q.—Yes? A.—Supposing we have a deposit of \$250,000 in New York State; that you will come to presently; of course Mr. Grant differs very much with the Department on that. We have a deposit of \$250,000 in New York State; we are doing business in New Jersey, and deposit \$100,000; we are doing business in the State of Michigan, and we deposit \$100,000 there; and we are doing business in Illinois and we deposit \$100,000 there. We are doing business in the State of Washington and deposit \$100,000 there, the directors deeming it desirable in the interest of the branch to do that—how would that be?

Q.—You are stating hypothetically, of course—at all events, partially hypothetically—the circumstances under which you might exceed the limits of section 4 in your view? A.—Yes, but supposing we did make that deposit—

Q.—I will follow that out. Then the Reserves, of course, in respect of the business you were doing in the United States would always exceed the amounts of those deposits? A.—Supposing it was less?

Q.—Would it not as a matter of fact— A.—The reserve would always be less.

Q.—The reserve would always be less than the amount of the deposit? A.—Yes.

Q.—It is not as a matter of fact now in respect of what you have deposited? A.—No.

Q.—It is much more, is it not? A.—Yes.

Q.—It is much more than the amount you have deposited? A.—Yes. But supposing we had made those deposits, the deposits there would be in excess of the reserve now—I am taking a hypothetical case—what position would we be in?

Q.—They would be in excess of the reserve now, but supposing you were making these deposits, you would be making those deposits with reference to the amount of the reserve on the policies in each particular State? A.—I want to deal with the case actually as it is. We are up against a straight proposition. The reserve is \$369,000, or was at the end of the year; supposing we had made all these deposits, we would have them six or seven or eight hundred thousand dollars deposited in some of the United States.

Q.—Let me get that straightened out; because you may be quite right and I may be quite wrong. Is there any difference where deposits are required in the United States from the requirements of our law which regulate—I do not say that they measure exactly, but they regulate the amount required to be kept invested by the amount of the reserve? A.—Yes, there is a difference. Under the Dominion Act one deposit covers the right of the company to transact business in this country.

Q.—But you are required besides that to maintain the reserves? A.—In the hands of trustees, or otherwise, as the Act states.

Q.—Yes? A.—But in the United States, there are many States will not admit of your transacting business there without you make a special deposit, irrespective of the funds you may have deposited in other States to cover reserve or anything else.

Q.—What States are those? A.—I can tell you two or three; West Virginia, Ohio, Massachusetts, and I fancy Wisconsin has lately adopted that law.

Q.—How long had your company been investing in excess of the amount which Mr. Fitzgerald subsequently claimed was your limit? A.—How long have we had these investments?

Q.—Yes, I mean in excess? A.—Of his contention?

Q.—Yes? A.—Well, of course he never made any contention.

Q.—Well, in excess of the principle laid down in the contention which he finally made? A.—Oh, yes, yes. Of course no exception was taken to this till this year. Let me see; I think it would be at the end of 1903.

Q.—That would be the first? A.—I think so.

Q.—You told me yesterday, but I have not borne it in mind, because it is upon the notes, when did you extend into the United States? A.—I think it was in 1900.

Q.—Then by the end of 1903 you had exceeded in the United States investments the amount which, according to the Department's contention, you would be entitled to have invested? A.—Oh, under the ruling we would have exceeded it, I think in 1902.

Q.—You exceeded it, certainly, in 1903 and then in 1904 you exceeded it, and the excess was taken notice of by the Department? A.—No, the ex-

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cess was not taken notice of by the Department, not until 1906.

Q.—You are right; I see the date here? A.—Yes, but of course—

Q.—Then you had exceeded it in 1905? A.—But you have to remember this, that during the time that the investments had increased from 1903, so had the reserves jumped up proportionately; so that actually there has been no increase since the end of 1902, because the increase has only been pro rata with the increase in the reserve.

Q.—You told me as a matter of fact that since the end of 1902 the only increases that have been made in your foreign investments have been what? Pro rata you said? A.—Pro rata to the increase in the reserve on the foreign business.

Q.—But you have always been since the end of 1902 exceeding the limit, applying the principle which the Department has now laid down? A.—According to their present contention.

Q.—Now the report of Mr. Blackadar refers in the first place to mortgage loans, \$116,901.72. Then bonds of the United States Corporation? A.—Those are deposited in the State of Minnesota, under the Act.

JUDGE MACTAVISH: What year was that? A.—1906 sir. 1906 was the first exception.

MR. SHEPLEY: But with respect to the business of 1905, for your returns of that year? A.—Yes.

Q.—\$116,901.72 was the amount of mortgage securities which you say were deposited in Minnesota? A.—Yes, there was over \$2,000 deposited there. Some of them had been paid off and they are on deposit there still.

Q.—Then in the bonds of the United States Corporations you had bonds to a book value of \$569,000? O.—Exactly.

Q.—Then you had besides \$277,300? A.—Those were loans.

Q.—All loans on United States securities? A.—Yes.

Q.—And you had loans on the Co's policies in the United States of \$11,601.30? A.—Yes.

Q.—And you had cash in the banks \$1,288.06. I am reading from a copy here, it is \$208 in one place and \$288 in another? A.—Yes.

Q.—That makes a total of \$976,091.08. And the reserve on foreign business at the date 31st December, 1903, is said in this Report to be \$369,969. That is right is it? A.—Yes, that would be taken from our return.

Q.—Then what is this about the Halifax stock, value in account \$260,641.60, what was the difficulty about that as you recollect, what was the contest about that and where was that in point of fact? A.—From our standpoint there was no contest.

Q.—From the departmental standpoint. You can put the contest there if you like. A.—There has been no contest. They have written us one letter for the first time in 1906. We have replied and I suppose it is with the ministers of justice and we may get a ruling in one or two years, as we did in another case.

Q.—That was not perhaps quite necessary? A.—Well, we had it in another case.

Q.—But you perhaps feel better that you have said it? A.—Well, I feel justified in saying it. I would like to here remark that we have never defied the Department.

Q.—I am not suggesting anything of that sort. A.—And if the Department had long ago ruled on this matter they are taking up now, we would have been happy to submit it to our solicitors and had it considered.

Q.—I understand you had submitted it to your solicitors, however that is beside the question. A.—I mean when they wrote this letter it was submitted to Mr. Grant and the reply was sent. Then to get at the Halifax; when we went into New York State the regulations there as to deposits were severe and we pointed out that under the reciprocal law they should allow us to deposit Canadian securities. They stated they would not accept the ordinary Canadian Municipals with coupons attached; owing to having a large amount of investments it was a nuisance to them, but they agreed if we could give them a registered security which is without a coupon, they would accept it. We ascertained that the city of Halifax issued their gold certificates of the Funded Debt, running for 15 years, in place of debentures, and we acquired the sum necessary, which was \$250,000, the face value, to deposit and they accepted that and we thought we had gained a great victory for Canada in having Canadian securities recognized and admitted by an Insurance Department there for the first time. Now we are told that when a Canadian security gets to Albany, although the money is left in this country it then becomes an American security.

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Q.—Then the question was whether or not this which in its inception was undoubtedly a Canadian security became within the meaning of the statute a foreign investment or deposit under the circumstances? A.—That is the question they have raised, and I would like to ask you this question, sir, in that connection.

Q.—I am afraid I cannot let you go so far as to ask me questions, because in the first place my answers would not bind anybody, and in the second place they would probably be wrong. A.—I don't think that; that is not the reputation you have, anyway. But I will put this case; when the 1899 Act was drawn, I will take a hypothetical case to start with, there came into the Canadian market a very gilt edged bond called Sao Paulo. That Company was incorporated in Canada. The question has arisen as to whether that can be construed as a Canadian investment. One lawyer has given the opinion Yes. Another lawyer has given the opinion No. Now I have no doubt that when Section 50 in 1899 was introduced it was never contemplated that a foreign corporation would be incorporated in Canada. Otherwise the words would have been added, "incorporated and operated in Canada." Now likewise with the question of companies depositing outside of Canada, securities, it was never contemplated that those securities would be otherwise than American investments, because such a thing had never occurred until we induced them to take our securities. Hence, in my judgment, and I am speaking of course as a layman, I may be all wrong in my reasoning, hence I thought in this Act a very wide construction should be given to it and that was the view of the late Mr. Grant.

Q.—Then we will go back for the moment to the language of the 3rd Section itself. "Any such Life Insurance Company may invest in foreign securities or deposit outside of Canada such portion of its funds as is necessary," and so on. A.—Well, of course there the words funds and foreign securities may be read together.

Q.—You may invest in foreign securities or deposit outside of Canada such portion of your funds. You may take your funds and invest them in foreign securities or deposit them outside of Canada. A.—You don't deposit the fund. The fund is the sum that you use for the purchase of securities. I am sorry Mr. Grant was not here; he was going to be in this case

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and was at Ottawa, but that was his construction.

Q.—Then of course coming before the sum invested or deposited, including any sum invested or deposited under the authority of subsection 3, is not at any time to exceed 10 per cent. of their reserve. A.—There comes the conflict and there is a very nice legal point.

Q.—Then excluding these Halifax bonds you were still very largely above the reserve? A.—Very little according to their reasoning.

Q.—If we take 260 from 976? A.—But that is a separate item altogether. That belongs to the State of Minnesota. You cannot include that. That is under a separate deposit.

Q.—I will come to that too. Exclude from the assets which amount to \$976,000, these Halifax bonds and where do you stand? A.—Take out that 277, it would leave roughly \$700,000.

Q.—As against a reserve of 370? A.—Plus 10 per cent. which would make 400.

Q.—Now you spoke about excluding also the Minnesota deposit? A.—Yes

Q.—On what ground would you exclude that? A.—Under the heading that the deposit desirable for the maintenance of the branch, that was its original intention.

Q.—That is deposited with the Government of the State? A.—It was \$200,000 and we are not writing new business there, it is too expensive, and we are having those mortgages paid off as they mature.

Q.—The custody of those mortgages is where? A.—In the Superintendent of Insurance at St. Paul.

Q.—A State official? A.—Yes.

Q.—We won't go over that argument again, because we understand your position with regard to it? A.—But I may mention this, sir, that or course if the ultimate ruling was that a gilt edged Canadian security, when it reaches Albany becomes an American security, we would be compelled to bring that back here to Canada and place Americans there, on the ground that our Government says that Canadian securities are not good enough to deposit in a foreign country.

Q.—Now you touched on a matter that was not perhaps relevant on an inquiry we were making at the moment, but still a matter of interest, and I would like to get your view

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about that. You spoke of Sao Paulo securities? A.—Yes.

Q.—That is a Company which you say is incorporated in Canada? A.—Yes.

Q.—It involves in the first place Canadian capital? A.—I understand so.

Q.—That is the shareholders are Canadians? A.—Yes.

Q.—The objects of the Company are altogether outside Canada? A.—Altogether, yes.

Q.—And the Canadian capital embarked in that undertaking is carried out of Canada and used in developing industrial and other schemes on foreign soil? A.—Yes.

Q.—Your statement is that there are different opinions about whether that is a foreign investment or a Canadian investment? A.—Yes.

Q.—Have you an opinion yourself? A.—Yes.

Q.—What is your opinion? A.—My opinion is that that should be considered as a foreign investment and I don't think it should come within Section 50 of the Act, and I so expressed myself in a letter to Mr. Fitzgerald on that subject.

Q.—I do not know that that letter is part of the record yet. May I see it, because if it is not part of the record I would like to have your view upon that put upon the record? A.—Allow me to point out what it is. These Sao Paulo bonds came upon the market and following the practise of the North American Life we wait until they are an earning power security before we make an investment. We desired to make an investment we therefore wrote to Mr. Fitzgerald on the subject on May 19th, 1902, desiring an opinion as to whether we would be empowered to make a purchase under Section 50, sub-section B. There is the letter. Not hearing from him we purchased a few of the bonds. On Feb. 9th, 1905, Mr. Fitzgerald writes us and states that he notices by our report that at the end of 1904 we have \$25,000 par value of these bonds and that he has now been advised by the Deputy Minister of Justice that the Section does not authorize the purchase by Insurance companies of the bonds of the said Sao Paulo Company. I am also informed that Mr. Z. A. Lash, K.C., is of the same opinion as the Deputy Minister of Justice and that he so advised a couple of Insurance companies.

Q.—That letter is upon file? A.—

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Is my reply? I will put the whole of this in.

Q.—Yes, that is also on the file. A.—Is our first letter on May 19th?

Q.—I am not sure about that. I hardly think so? A.—Do you think it ought to be on?

Q.—Yes, by all means? A.—In this letter I have expressed my views; I refer to having discussed the matter with him two years ago, and which we both considered was not intended and so forth.

Q.—The first letter I am doubtful about and if you do not mind I will put it in? A.—Certainly. And following that out we at once sold those bonds to support the ruling of the Department.—(Exhibit 141, Correspondence referred to.)

Q.—It may turn out that the whole three are on the record. I know two are? A.—Yes. Well, it took two years and nine months to get that opinion.

Q.—Perhaps the action of the Department was not prompted by an opinion at all, perhaps they never got one? A.—Yes, Mr. Fitzgerald turned it over to the Department of Justice and it was the Deputy Minister of Justice who gave the opinion. I don't think it was the fault of Mr. Fitzgerald at all.

JUDGE MACTAVISH: It would appear, from the evidence taken in Ottawa that the Department of Justice had given an opinion on this investment.

MR. SHEPLEY: I am not clear whether the opinion was brought about by the letter of 1902 or whether it was brought about by the correspondence of 1904.

JUDGE MACTAVISH: As I understand you, Mr. Goldman, the ruling of the Department corresponds with your own view? A.—With my own view, although we had a few of the bonds, and we at once sold them.

Q.—As I understand it you had no answer to your letter of 1902? A.—No, sir, it took two years and nine months.

Q.—And meantime you made a small investment? A.—Yes, sir. And remarkable to say, as our Minutes will show, we thought that it was such a gilt edged investment that the Directors passed an investment of \$50,000 the very day we got this letter. Of course we cancelled that.

MR. SHEPLEY: You had, Mr. Goldman, some very considerable dealings in bonds of the Chicago and Mil-

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Waukege Electric Railway Company?
A.—Yes.

Q.—Under what circumstances were those bonds first introduced to your notice? A.—They were brought to the notice of the Company by Messrs. Osborne and Francis.

Q.—Osborne and Francis are stock brokers of Toronto? A.—Yes.

Q.—Any relationship between that firm and Mr. Osborne who is on your Board? A.—Yes, Mr. Henry Osborne is a son of Mr. J. Kerr Osborne.

Q.—Do you know whether Mr. J. Kerr Osborne has any connection with that firm? A.—None whatever.

Q.—You know he has not? A.—I know he has not. He has told me so. In fact he remarked not long ago that he thought his son Harry was richer than he was.

Q.—That is the fond fathers' view? Now under what circumstances were the bonds brought to your notice by Messrs. Osborne and Francis? A.—Mr. Osborne brought them under the notice of President Blaikie and the late Mr. McCabe, and after consideration they requested me to go out there and investigate the road and the property generally and report upon it.

Q.—And you did so? A.—I did so and my report is on file.

Q.—That is on file with the Company? A.—Yes.

Q.—And you have been good enough to give us a copy which is here? A.—Yes.

Q.—That is your report made after your visit? A.—Yes.

Q.—When was your visit made? A.—As you were saying yesterday I have not dated that. I could verify it. It would be September, 1902. Allow me. (Dates the Report in pencil.)

Q.—Now what was the full construction scheme of this Company at that time? A.—What do you mean?

Q.—From where to where were they going to run at the time you made this examination? A.—I really forget now. I think it was from—

Q.—Evanston, which is 12 miles from the centre of Chicago? A.—Yes.

Q.—To where? A.—Let me see, I could perhaps verify that it was to Waukegan.

Q.—The projection was from Chicago to Waukegan? A.—Yes.

Q.—And it was then, however, called the Chicago and Milwaukee Railway? A.—Electric Railway.

Q.—Waukegan is about half way, according to this little map between Chicago and Milwaukee. What was the total issue of bonds then being

brought to your notice? A.—I could not say that.

Q.—A million dollars your report states? A.—Oh, you mean what was the total issue. The total issue was a million dollars, yes.

Q.—Was it Mr. Osborne or Mr. Francis who conducted the negotiations? A.—Mr. Osborne.

Q.—What was stated by Mr. Osborne with regard to the marketing of these bonds, how did they come to be offered in the markets here rather than in the markets in the States, in Chicago itself for instance? A.—Well, I could not remember that. The first conversation was with Mr. Blaikie I think and the late Mr. McCabe.

Q.—Then your report will show how much had then been constructed? A.—Yes.

Q.—And it also shows what the earnings had been during the period of construction and up to the time that you made your examination? A.—Yes, and it also shows the exact amount of money the owners had put into the road.

Q.—And it also shows I think whether or not any dividends had been paid and what was available by way of net income for the payment of interest upon the bonds? A.—Yes.

Q.—In other words you dealt with the matter upon the practical footing of a proposing investor? A.—Exactly I made a searching investigation.

Q.—Before going into the matter more fully as to your dealings at that time, subsequently there was an alteration made in the intentions of the proprietors of the road and in the bond issue? A.—Yes, they obtained a charter called the Chicago and Milwaukee Electric Railroad and this road was merged into that and they had the right of a five million dollar bond issue. They deposited in escrow one million dollars of bonds to provide for the Chicago and Milwaukee Electric Railway bonds which are now underlying bonds and consequently of very much higher value in the market. They then proceeded with the further construction of the road.

Q.—What territory did the new charter cover? A.—The new charter covered I think to Kanosha.

Q.—From Milwaukee? A.—No, from Evanston to Kanosha.

Q.—That is about half way again between Waukegan and Milwaukee? A.—Yes.

Q.—Have they acquired any other rights? A.—Yes, since then they have

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got incorporated I understand under the laws of Wisconsin and they are now building right into the heart of Milwaukee. In fact they have got a privilege there to go right into the heart of Milwaukee for nothing, which is worth a million dollars.

Q.—At all events there is now a company formed which is building between Kanosha and Milwaukee? A.—Yes, and becomes part of this system.

Q.—Does it fall under these bonds or either issue of them? A.—To this extent that from Kanosha to Milwaukee the bond issue for that, the interest only is paid there is no stock issue on that, the whole of the earnings fall into the other road.

Q.—The dealings of your Company in these bonds were confined as I understand it to the first issue? A.—The first lot were to the Chicago and Milwaukee railway.

Q.—I am speaking now of the bond? A.—Yes.

Q.—Did you subsequently acquire any bonds, leaving the stock out for the moment, in the second issue, other than as a holder of underlying bonds? A.—Yes.

Q.—That was by way of loan, I think? A.—No, by way of purchase.

Q.—Your first lot was out of the million issue? A.—Yes.

Q.—And your second lot out of the five million issue? A.—Yes, what they had issued at that time, we purchased I think \$200,000 of the Chicago and Milwaukee Electric Railroad.

Q.—You have \$200,000 of each issue that you have actually purchased? A.—Yes.

Q.—Then I will give you your list of investments here and we will take that up more in detail at two o'clock. A.—One moment, before you go from that, while it is fresh, I want to show you here the care we exercise, before putting this first investment in the Chicago and Milwaukee Railway, the late Mr. McCabe was a great friend of Mr. Lunger, the Vice-President of the Travellers' Insurance Company of Hartford. It was represented to him that they had purchased some of these bonds at par. Now we like to believe that we get in on the ground flat. Because we want to do the best we can for our policyholders. So Mr. McCabe wrote to the Travellers' Insurance Company and here is their letter, the original, from Mr. Lunger, stating that they had purchased \$50,000 of these at par and interest.

Q.—Have you Mr. McCabe's letter also? I will be pleased to make that

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correspondence an Exhibit? A.—I will let you have copies of them. Then in addition to that Mr. Lunger is good enough to send a copy of a report of their representative who investigated the conditions of the road prior to myself, which confirms my investigation. I will let you have copies of those.

Q.—I will be very glad to put them upon the record? A.—And it is needless to say that the grand success of the road since has fully demonstrated all I say.

(Adjourned at 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., May 22nd, 1906.

Examination of Mr. Goldman continued.

MR. GOLDMAN: I would like these to go on file as additional forms of notification as to premiums overdue and all that sort of thing. (Filed as part of Exhibit 136.)

MR. SHEPLEY: Q.—Will you find for me here the first purchase of these Chicago and Milwaukee bonds in 1902? A.—The railway?

Q.—Yes? A.—There they are.

Q.—And the date? A.—October 2nd they were purchased. You will notice by the minutes that they were taken up by instalments.

Q.—You took altogether in that lot \$200,000 par? A.—Yes.

Q.—At what figure? A.—At par.

Q.—Those were bought from Osborne & Francis? A.—Yes.

Q.—Did you during that year have any other transactions either by way of purchase or loan in respect of these stocks? A.—No, I don't think we had.

Q.—Then in 1903 what transactions had you? A.—In 1903 they had purchased \$100,000 of the Chicago & Milwaukee Electric Railway bonds.

Q.—That is the larger concern? A.—Yes.

Q.—And that was part of the five millions issue? A.—Yes.

Q.—And what did the company get with that \$100,000 of bonds? A.—20 per cent. bonus stock.

Q.—Bonus stock to the extent of 20 per cent.? A.—Yes.

Q.—That would be \$20,000? A.—Yes.

Q.—What did you pay for them? A.—For the stock?

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Q.—Yes, for the bonds? A.—95.

Q.—And the stock was thrown in?
A.—Yes.

Q.—Then did you have any other transactions in 1903 in respect of bonds of that issue? A.—No.

Q.—Did not you lend? A.—I was not following in that way.

Q.—What was your transaction in 1903 in respect of loans; I make it that upon bonds to the amount of \$237,000 par you loaned \$195,000 on call loans to Osborne & Francis? A.—Yes, if you figure it out that would be satisfactory to me without verifying it; I have no doubt it is correct.

Q.—Up to that time you had purchased \$200,000 at par of the million issue? A.—Yes.

Q.—You have purchased \$100,000 at 95 of the five million issue, getting twenty per cent. bonus stock? A.—Yes.

Q.—And you had loaned \$195,000 on \$273,000 of the five millions issue? A.—Yes.

Q.—And I think you did not get any bonus stock as security with your security? A.—No.

Q.—In 1904, if you will assent to this perhaps we will save time by my giving the result—in 1904 you purchased again at 95 \$100,000 of these bonds of the five million dollar issue? A.—Yes.

Q.—Getting again twenty per cent. bonus stock? A.—Yes.

Q.—And you purchased those from Osborne and Francis? A.—Yes.

Q.—That would make altogether \$400,000 of these bonds all told that you had? A.—Yes.

Q.—Plus \$40,000 of bonus stock? A.—That is correct.

Q.—That you owned? A.—Yes.

Q.—In 1904 you made further call loans to Osborne & Francis? A.—Yes.

Q.—Lending them \$223,000 upon bonds to the extent of \$263,000 par? A.—That is correct.

Q.—Those were also bonds of the five million issue? A.—Yes.

Q.—And you got no bonus stock as security? A.—None whatever.

Q.—If you will follow on from there, in 1905, there was a transaction which I want to explain briefly, you released apparently in six separate lots \$358,000 of the bonds which were held as security for the call loan, do you see that? A.—Yes, but we got paid for them.

Q.—You released? A.—Yes, that would be all right.

Q.—And you received in six payments as consideration for those re-

leases \$152,550? A.—Whatever is shown there.

Q.—That is what it seems to be? A.—I have not figured it out.

Q.—I have verified so far as these figures are concerned and that seems to be quite right? A.—Yes.

Q.—That was all in January that that releasing took place? A.—Yes.

Q.—And do you remember what the occasion that was? A.—I cannot say, excepting that in the ordinary course of events they would be—

Q.—They would be selling the bonds? A.—Wait one minute, I think I can. Let me see the stocks owned; the occasion of that would be that we had purchased a large lot of British Columbia Telephone Company bonds, and we would call the money for the purpose of paying for them, that would be it.

Q.—What quantity British Columbia Telephone bonds had you purchased, \$332,500? A.—That is the cost, yes. \$350,000 which cost us \$332,500; so that I have no doubt in calling that and other loans that would be for that purpose.

Q.—Then you were calling in the loans and these moneys were paid? A.—Yes.

Q.—And on the 13th February you advanced an additional \$12,300? A.—Yes.

Q.—Was that on the security of the Chicago & Milwaukee bonds that you still held? A.—I suppose so, yes.

Q.—No further security seems to have been put up for that loan? A.—No, we would likely have very large margin.

Q.—You had so far as the par value is concerned a very substantial margin, there is no doubt about that? A.—We had a very large margin, yes.

Q.—You made further call loans in February of \$36,000 on \$40,000 of these bonds? A.—Yes.

Q.—In April another \$25,000 on \$28,000 of these bonds? A.—Yes.

Q.—And in May, 1905, a loan of \$50,000 on \$56,000 of bonds? A.—Yes.

Q.—In May again, on the 23rd, a loan of \$9,000 on \$10,000 of bonds? A.—Yes.

Q.—July 6th, \$45,000 on \$50,000 of bonds? A.—If it is there that is correct.

Q.—There is a series of transactions here, perhaps one transaction, because all dated the 12th, I want you to explain to me; it commences by transfer of \$100,000 Chicago to our cheque for

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\$10,000 for \$250,000 Chicago, by cheque for interest on \$90,000, and to transfer \$250,000 Chicago & Milwaukee Electric, to separate account, Osborne & Francis, \$100,000—explain that to me please? A.—The explanation of that is this, that they had sold for shipment abroad \$100,000 of these bonds, and they proposed in place of that to give us, this is it, \$250,000 of the stock.

Q.—That is on common stock? A.—Yes.

Q.—Which road was that? A.—The railroad.

Q.—The Chicago & Milwaukee Electric Railroad? A.—Yes.

Q.—That was the common stock, they proposed to let you have \$250,000 of that by way of security for the call loan? A.—Yes.

Q.—You releasing \$100,000 of these bonds? A.—Exactly; and here is the transaction if you will follow it up; it was paid off within a couple of months after.

Q.—That Chicago & Milwaukee stock, the common stock stood you as security for a separate call loan, that is it was separate account? A.—Yes.

Q.—To the extent of \$100,000? A.—Yes.

Q.—And in September that was paid off in two sums of \$60,000 and \$40,000? A.—Yes.

Q.—Then coming back to the bonds again; that left you then with \$100,000 of credit upon the transaction, \$100,000 of bonds having gone out? A.—Yes.

Q.—And the \$100,000 of credit was of course in respect of this separate account? A.—Exactly.

Q.—On the 14th September you lent another \$50,000 on \$53,000 of bonds to Osborne and Francis? A.—Yes.

Q.—October 4th, \$16,000 on \$18,000? A.—Yes.

Q.—Then I see an entry here, Interest increased to five per cent? A.—Yes, that arises from this, the interest there was four and a half per cent.—these are call loans, and as it fluctuates it governs what the rate is.

Q.—As what fluctuates? A.—The rate of interest, sometimes you will see it comes to five and a half per cent., and we notify them at once and all the loans are at once on that basis.

Q.—In November you released \$25,000 of these bonds, receiving \$22,500? A.—Yes.

Q.—And two days afterwards you loaned \$27,000 on \$30,000 of these bonds? A.—Yes.

Q.—Was that the same or part of the same lot of bonds? A.—No.

Q.—Were they just taken out for a temporary purpose? A.—No, they are taken out because they are sold, and then if we had the money, the money was $5\frac{1}{2}$ per cent., they would perhaps take up the loan from some bank and bring it to us and give us the benefit of it.

Q.—You increased the interest to $5\frac{1}{2}$ per cent? A.—Exactly.

Q.—In February of this year 1906 you got \$22,500 and released \$25,000 of the bonds? A.—Yes.

Q.—And on the 3rd March you got \$250,000 in cash and released the balance of the bonds, \$271,000? A.—Exactly.

Q.—That closed the transaction? A.—Yes.

Q.—What was the cause of this cleaning out of this call loan? A.—That letter of Mr. Fitzgerald's, in which he called attention to our having this call loan, and it was submitted to the President and directors, and while Mr. Grant's opinion was definite that under the Act while there was a construction as to the amount we might purchase in his judgment, we doing business in United States, there was no limit as to the amount we might lend in Canada on American securities. However the President suggested that we had better have it paid off to meet the view of the Department as far as possible. Osborne & Francis were notified, and in a few hours they paid it off.

Q.—You called in the loan then? A.—Yes.

Q.—And that was finally called in on the 3rd March? A.—Yes.

Q.—And on the same day you wrote a letter to Mr. Fitzgerald in which you say, "The loans referred to are upon call, and that of \$273,300 has been paid in since our report. It is therefore unnecessary to say more respecting the same?" A.—Exactly.

Q.—That is the loan you are referring to in that letter? A.—Yes.

Q.—The balance of which had been in fact paid off that day? A.—Yes.

Q.—If I have followed the figures correctly that would indicate that from first to last the volume of your call loans upon those bonds was \$739,050? A.—I should think it would be fully that.

Q.—Besides that there was the book-keeping loan upon common stock of \$100,000? A.—Yes, that was in July, 1905.

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Q.—And then in addition to that you had purchased and held and still hold \$400,000 of bonds? A.—Yes.

Q.—\$200,000 of the million issue and \$200,000 of the five million issue? A.—Yes.

Q.—Is not that a very considerable number of eggs to have in the same basket? A.—Our directors do not think so, some of our directors have been up there and visited the property, they have had other people go there to visit it and report upon it, and they feel fully satisfied it is a gilt edge investment.

Q.—You are speaking now of the \$400,000? A.—Yes.

Q.—You see at one time you had either out on call loan or sunk in the purchase upwards of a million dollars? A.—No, not at one time.

Q.—Don't you think so? A.—No, it was a fluctuating item.

Q.—But before you released any? A.—There might have been an average of \$300,000.

Q.—On the call loan? A.—Yes.

Q.—We wont average it, because we can get it exactly; before there was any released, in the early part of 1905, you had \$418,000 out? A.—Yes, that would be a little more than I stated, however, supposing it was a million the directors were well satisfied with it I am not expressing my opinion at all.

Q.—I suppose that would not have been out if they had not been satisfied, and I suppose they passed upon these call loans from time to time? A.—Every one is upon record.

Q.—It has not been customary for you to go so deeply into any one security, has it? A.—We never had the same lot of bonds offered to us, never the same opportunity for similar gold bonds.

Q.—At all events you never have in fact put so many eggs into one basket before? A.—No.

Q.—The opinion of the Department was that this was a United States security? A.—That is the conclusion they have come to this year.

Q.—Was there anything in your mind or in the notification from the Department with respect to this road not having yet paid dividends? A.—No, none whatever.

Q.—That question was not raised? A.—Never.

Q.—Now, you had some other transactions with Osborne & Francis, you had transactions I think which commenced upon joint account? A.—

The Windsor, Sandwich & Amherstburg Electric Railway bonds.

Q.—Can you turn to that in these lists that we have? I do not mean you, personally; I mean the company? A.—Well, in that connection, might I be allowed to make a remark here, in view of the extensive business relations we have had with Osborne and Francis, and the fact that someone has considered that perhaps I have had some business dealings with that reputable firm, I know of no reason to prevent me, as manager of a life insurance company, having transactions with them if I chose, but it so happens that I have never had a business transaction with Messrs. Osborne & Francis, nor with any member of that firm individually, nor has anyone on my behalf; neither have I received any favor in any manner or form from either one of those gentlemen.

Q.—You understood me as asking you about a transaction between the company and Osborne and Francis, and not about a transaction of your own? A.—Certainly, I know that you had not any other in your mind. The position is this: we purchased the Sandwich Windsor & Amherstburg Railway bonds; we purchased \$150,000 through them.

Q.—That was the first transaction? A.—Well, there was \$110,000 in 1904 and \$40,000 in 1904, and you will notice from the minutes, I may say, the great care with which this matter was investigated by our directors and by our solicitors, and also that these bonds are guaranteed principal and interest by the Detroit United Railway Company.

Q.—That was an out and out purchase? A.—That was an out and out purchase. Then we went in with Osborne and Francis—I am now speaking from memory—I think it will cover the ground without referring to books—then we went in with Osborne & Francis and obtained \$120,000 odd of these bonds, and the understanding being—

Q.—That was on joint account? A.—That was on joint account.

Q.—That is the way it commenced on joint account? A.—That is the way it commenced.

Q.—Tell me a little more about that; from whom did you buy? A.—We and they bought from the Detroit United Railway direct.

Q.—The Detroit United Railway were marking the bonds of the Sand-

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wich Windsor & Amherstburg road?
A.—Yes.

Q.—Just describe what the arrangement was under which you were purchasing on joint account? Who was to find the money? A.—We provided the money.

Q.—Were they to make sales of the bonds? A.—They were to make sales of the bonds.

Q.—And when the bonds were sold any profit or loss would have been divided equally between you? A.—We received interest on the money and the profit—there could be no loss—

Q.—Don't say that; just say any profits; do not say there could be no loss? You did not anticipate any? A.—Oh, no, we knew all about it; we had the interest, and then whatever profit there was was to be divided.

Q.—Nothing was said, I suppose, in that sanguine hour of the possibility of the loss to be divided? A.—Oh, well, we had investigated it, and the property was such excellent—

Q.—And I suppose the arrangement was such that you would have had to divide the loss, if there had been one? A.—Oh, certainly, and we knew that the other parties were—

Q.—You contributed the funds, getting interest? A.—Yes.

Q.—They contributed the labor and the skill in putting the bonds upon the market? A.—Yes.

Q.—My data for that is on the 15th February, 1904, that you paid out the money and the bonds were taken on joint account? A.—That may be so.

Q.—And my figures are that the amount you paid for \$147,000 par of these bonds was \$133,677.37? A.—That would be right; that is an extract from our books.

Q.—What was the figure at which you were buying, do you remember? A.—I am not certain; I think somewhere about 91, or something of that sort.

Q.—Then Mr. Osborne seems to have—I suppose it was he who was arranging it—seems to have got a little of this in small amounts between February, when you bought, and the end of December? A.—Yes.

Q.—Three, one, ten, one, six, five, and one; that seems to be the number? A.—Yes.

Q.—Twenty-seven out of 100; what were the bonds? A.—Thousand dollar bonds? A.—Yes.

Q.—Out of 147 bonds that number seems to have been marketed during the year 1904? A.—I should say in

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justice to them that we told them to make no effort to sell them then.

Q.—At all events, they appear in April, May, September and December to have made the sales I speak of? A.—Yes, just casually.

Q.—You mean they were not pushing the sale? A.—No.

Q.—On the 20th day of January you had a transaction with them by which they ceased to have any interest in these bonds? A.—Yes.

Q.—How did that come about? A.—Our records will show there that the directors, finding this road was such a large earner, apart from the guarantee of the Detroit United Railway, thought it was a desirable investment that the company should have, and made an arrangement for Osborne and Francis to release their interest in it, and we became possessor of the bonds.

Q.—What did they get for going out? A.—It will show there; it was a small amount.

Q.—I do not know whether it shows or not. This is interspersed with interest charges? A.—Yes.

Q.—Who got these interest coupons, the proceeds of these? A.—These would all come to us; they would accumulate.

Q.—Whatever was sold here seems to have been sold exactly at 90? A.—Yes.

Q.—That is, there was no profit on the transaction? A.—Well, that would be the release price.

Q.—You see you told me that you purchased at 90? A.—Yes.

Q.—You told me you were not anxious to have sales made? A.—Yes.

Q.—We see that the sales that were made by Osborne during this year were made at 90 so far as this account shows. If they were made at a larger price, where will that be found in your books? A.—You see those are at 90; therefore when we released them we released them at 90, and this would be our difference.

Q.—What do you mean? The accrued interest? A.—Yes.

Q.—What do you mean? A.—I am speaking generally now, because I have not this before my mind, but whatever the difference was between what Osborne and Francis got we were entitled to would be shown here.

Q.—What is shown here is accrued interest on their bonds, \$49.93? A.—Yes.

Q.—That would be selling the bonds for 90 and accrued interest? A.—Yes.

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Q.—In your opinion, it was worth the accrued interest and 90, I suppose?
A.—Yes, we got that, I suppose. I have not examined it.

Q.—I should like to have that done before the enquiry as to your company is completed; whether or not these bonds were being put upon the market at the same figure you had paid for them? A.—Oh, no, they were not; I know that.

Q.—There must be some place in the books where the difference would be found? A.—The best way would be to have a statement of the account with Osborne & Francis, and have it put on record here.

Q.—Will you let me have that? A.—Oh, certainly.

Q.—It might make a difference in the view one takes of the transactions whether those few sales were made at a profit, or made without making any loss? A.—I will have them make out a list to whom they sold them.

Q.—What I have in my hand is what your people have furnished me? A.—Exactly.

Q.—Then I ask you what Osborne & Francis made out of it, and that does not show here at all events? A.—No, but we will give you those particulars

Q.—Where does it appear in your list of acquired or purchased securities? A.—Here.

Q.—I observe that, and I see that whereas you closed out the joint account of Osborne & Francis at \$105,877.37, the item of "money paid to purchase"— A. You see that is January 20th and this is May 20th.

Q.—We think that should be Jan. 20th; that shows a purchase at 90.87? A.—Yes.

Q.—And the total amount of the purchase money \$109,048.52? A.—Yes. We will give you these different figures; I have no doubt this is perfectly correct, though.

Q.—You see the difference between the two figures? A.—Yes.

Q.—I want to have that accounted for? A.—Yes.

Q.—Do I understand you to say that according to your recollection now; unaided, as it is, of course, you are of the impression that Osborne & Francis sold out their joint interest to you at a profit? A.—Yes.

Q.—That is your impression? A.—That is my impression.

Q.—You do not know at what figure that would be? A.—No, but our records will show it. We will have the statements of which we will furnish

you copies to show that in the disposition of those bonds, whatever the profit was at that time, the value was at that time, it would be divided, and we would pay them their share, and that is what that item would be.

Q.—If the purchase was at 91, and if you purchased out the joint interest at 90.87, that would not look like a profit? A.—We will give you the statement.

Q.—This is the resolution, I think, in which you refer to the acquisition of the Sandwich, Windsor and Amherstburg Railway. I will read the Minute, so that it may go upon the record. On the 18th February, 1904, at page 192, of the Executive Committee Minutes, this occurs—

"A loan was made to Messrs. Osborne & Francis at five and a half per cent. for \$130,177.37 on \$147,000 first mortgage bonds of the Sandwich, Windsor & Amherstburg Railway (Electric), the principal and interest being guaranteed by the Detroit United Railway. It should be mentioned that Messrs. Osborne & Francis had an option on these bonds at 90, and that the company was to take them on joint account, having a large amount of funds on hand, it was thought well by the President, Vice-President and Managing Director to have Messrs. Osborne & Francis take up this option, and we supply the money for that purpose. In considering the question of taking up the bonds a reduction was made in the price of \$3,500, which was the main reason for putting the transaction through at the present time. In view of the present financial conditions, the bond market is extremely quiet. However, Messrs. Osborne & Francis report that they have made quite a number of institutions and persons engaging for the purchase of these bonds, and as they appear in every way to be a gilt edged investment, no doubt they will all be sold within a reasonable time. The price at which the purchase has been made will net about 5.60 per cent.; hence they are carrying this as a good investment, pending sales being made."

Then at the close of the transaction, page 204, we find—

"In respect of the matter of first mortgage bonds of the Sandwich, Windsor & Amherstburg Railway, amounting to \$147,000, which the company took on joint account with Messrs. Osborne & Francis some time ago, it was thought advisable, in view

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of said firm having disposed of \$27,000 of these bonds, to have their option cancelled, and for the company to take over the balance, amounting to \$120,000, on terms that may be mutually agreed upon with Messrs. Osborne & Francis, say on a basis of about 91½, which would give a yield of 5¼ per cent."

That is the minute to which you refer? A.—Yes; so that it is easily worked out.

Q.—That will assist you in getting the statement you promised to give me? A.—Yes, I remember the whole transaction; that is what you wish, a letter from Mr. Lunger.

Q.—The correspondence about the Chicago & Milwaukee Railway, with Mr. Lunger, the traveller? A.—Yes. (Exhibit 142.)

Q.—Were your rates of interest on call loans uniform, as between various borrowers? A.—Yes.

Q.—The fluctuations that governed in the case of one borrower governed in the case of all? A.—Exactly.

Q.—There is no doubt at all about that? A.—No doubt at all about that. No one got any better than another.

Q.—Is that the Executive Committee book? A.—Yes.

Q.—Page 117 there is a matter I want to ask you about. There is a minute on this page, the date of it being the 18th April 1899:—

"The Executive officers were authorized, in case the company's solicitors advise that the company have power so to do, to call for plans and estimates for the erection of residences upon the 100 feet of vacant land on the west side of Beatty Avenue, Parkdale, and fifty feet on the west side of Close Avenue, upon an undertaking that a buyer of the same will make a mortgage thereon to the company for the full amount of the company's claim and outlay for the said lands and buildings which are to be erected and supervised under the directions, plans and specifications of a competent architect; upon an understanding and agreement that the property will be sold when the same can be done advantageously, so as to give the mortgagor a part of the profits thereof."

Q.—Do you recollect about that? A.—Yes, sir, I think I do. My recollection is that the land was sold to William McBean, a builder here, and we supplied the money for the purpose of erecting the building.

Q.—In the first place you had become the owners of the property by foreclosure of some mortgage? A.—I

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think it was some years before it came into our hands in that way.

Q.—Then McBean, the builder, was to build upon it? A.—Yes.

Q.—And give you a mortgage, as the memorandum states, for the full amount that the property stood you? A.—Yes.

Q.—If the property was to be handled so as to make a profit, it was to be divided between you? A.—Yes.

Q.—Was that carried out? A.—Yes, without any profit.

Q.—Was it carried out at a loss? A.—I do not think so.

Q.—But you do not think there was any profit to divide? A.—No, I am sure there was no profit to divide.

Q.—Was that a frequent matter, of dealing with property that you wanted to realize upon? A.—That is the only case I remember.

Q.—That is the only case you remember in which the matter was dealt with in that way? A.—Yes. The directors felt, I think, that they could not go into the building themselves, and took that means.

Q.—Now about the bonus stock that you got, have you other bonus stock besides that you got of the Chicago & Milwaukee? A.—Yes, at the beginning of 1905 we got \$25,000 of the British Columbia Telephone Company stock.

Q.—That was also bonus stock? A.—That was bonus stock.

Q.—In connection with these bonus stocks, what means, if any, did you take, or were taken, to satisfy the directors that these stocks did not carry with them any liability? A.—Well, I forget what was the case with the Chicago & Milwaukee, but in the case of the British Columbia Telephone we had information, I think, and an exhaustive report from Messrs. Tupper & Griffin, of Vancouver, on the whole thing.

Q.—That is, you took legal advice as to the whole situation? A.—Yes.

Q.—And do you happen to remember whether it included this feature, as to whether or not the stock in your hands, getting there as bonus stock, would be free from call? A.—Well, I do not think any question was ever raised, because the statement of the company showed that it was fully paid up.

Q.—I do not think, perhaps, you appreciate what I am trying to get at, and it is perhaps not natural that you should at first; you do not mean to say, of course, that this was stock which had been subscribed for and

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paid in full for cash? A.—Those kind of stocks there very seldom are.

Q.—We all know that? A.—Yes.

Q.—You are perhaps also aware that the proper method of crediting paid up stock is to pay it up? A.—Sometimes.

Q.—If stock is issued as paid up, and it is not paid up, either in meal or in malt, there may be a liability in respect of it; in other words, the company cannot make the stock paid up just simply by issuing it as such? A.—Well, I suppose they would take the proper legal methods.

Q.—What I was getting at was to see whether or not you took any steps, and if so, what steps, to satisfy yourself or your Board of the legality of this issue of bonus stock? A.—I cannot say at this stage, because the late Mr. McCabe had this matter in hand, the first bonus, and I had nothing to do with it.

Q.—But in the case of the Chicago & Milwaukee you had? A.—This is the Chicago & Milwaukee I am taking; it was Mr. McCabe who had it in hand when the first bonus was issued.

Q.—You were aware of it all, because you made a report on the whole subject? A.—The report I made was on the Electric Railway, and we got no bonus, but let us look at the case in another way; this British Columbia Telephone Company, a going concern, a large plant and profitable affair—they own the stock; their statement shows that so much stock is paid up.

Q.—Do you mean to say they own their own stock? They may have Treasury stock unissued? A.—I mean to say that the parties in connection with that own it.

Q.—Some of the parties own it? A.—Yes.

Q.—To whom it has been issued as paid up stock? A.—That I do not know; it is paid up on the record. It is paid up in the statement we examined.

Q.—It is called paid up? A.—And shown as **paid up**.

Q.—I want to see whether you can appreciate this; that while stock may be described by the company which has issued it as being paid up, it may not in law be paid up as that at all, can you appreciate such a situation as that at all, or did that never occur to you? A.—Well, it has occurred to me in connection with wild cat mining schemes, but not in connection with a legitimate enterprise, but you must remember it is a nice fine point of law that I could not appreciate.

Q.—I do not know that it is a fine point of law at all? A.—To apply it to enterprises like this, that is what I mean.

Q.—Where do you suppose the value had got into these stocks, if they were able to give them away? A.—Well, let us take a case right at home; take the Toronto Street Railway. As I remember it, the first issue was one million, which was supposed to be paid up. Subsequently to that they issued five millions.

Q.—Which was supposed not to be paid up? A.—Which was created by the increased value in the security of the property, the equivalent, supposed to be, of its earning power; that would be a similar case.

Q.—That is what is commonly called watered? A.—Yes, and I do not know that there is any liability attached to the Toronto Railway stock.

Q.—Neither do I? A.—No more than I do in those cases.

Q.—At all events, you did not make it the subject of enquiry so as to satisfy your Board on that subject, so far as you are aware? A.—I was not asked, and I had nothing to do with that.

Q.—So far as you are aware, no enquiry was made? A.—Not that I am aware of; whether Messrs. Tupper & Griffin did in their report on the British Columbia Telephone bonds I cannot say, but they went into that most exhaustively, charter, and trust deed, and everything else.

Q.—I suppose the handing over of this additional stock by way of bonus is intended to promote the sale of the bonds; that is the purpose? A.—I do not know that, because I may say this, perhaps we were a little innocent, but it was the first time we had ever heard of such a thing.

Q.—As bonus stock? A.—As bonus stock, and it came to us as quite a pleasant surprise.

Q.—Quite a modern invention? A.—It was a pleasant surprise, and we desired to make the best returns we could for our policyholders.

Q.—You were buying the bonds? A.—Yes.

Q.—And you supposed the value was in the bonds, or you would not have bought? A.—Oh, yes, we had no doubt about that.

Q.—And you, out of compassion, took the bonus stock? A.—That is a nice way to put it.

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Q.—And you did not look the gift horse in the mouth? A.—Not at that time, sir.

Q.—And besides these two cases, you do not own any bonus stocks? A.—Not one dollar.

Q.—You have shown, or have you shown, these bonus stocks in your returns? A.—No, we never have. Mr. Blackadar and the inspectors have examined these bonus stocks. I think they have mentioned them to me, and saw that they were registered in our name, and registered on our books, and other negotiable securities we have are kept in the Trust Deposit vaults in the Bank of Commerce. We do not keep a negotiable security on the premises.

Q.—Then there is one other matter I want to ask about. You had at one time an insurance scheme on foot, which was called the scheme of insurance by deferred annuity policies? A.—No, we never had it.

Q.—You did not have it on foot? A.—Well, the late Mr. McCabe, as the records will show, had an idea that that class of bond could be issued. I perhaps can save you time if I give this little explanation.

Q.—State first what was the scheme? What was the insurance scheme? A.—If you will let me tell you, I can do it, and it will save you a lot of time. I will give it to you in a nutshell; this idea that he had was for bonds to be issued in connection with certain enterprises, and he worked away at this, and consulted with the solicitors, and ultimately the directors stated that if he could get an insurance company in New York to agree to issue the same kind of form, and if the Superintendent of Insurance of New York State would authorize the issuing of it, the company would authorize him to go ahead.

Q.—That is, would authorize the New York people to go ahead? A.—No, Mr. McCabe to go ahead, provided the insurance companies in New York would do the same. The object the Board had was—I happen to know—was to get some test of this scheme of his. He went down and came back, and never said another word. He is not here now, so I can tell you what the result was. So the actuary of the company told me there was no insurable interest in it, and as under our charter a policy must contain a life contingency, we could not issue that bond, and that ended it.

Q.—It came to an end? A.—We never heard a word about it.

Q.—The idea was to issue some sort of policy in which the persons paying the premium had not an insurable interest? A.—No, there was no life contingency at all. It was a forty year sinking fund, but no life contingency, and we had no power to touch it at all.

Q.—One of your Minutes says that the opinion was expressed that it would be better to sell the rights to another company for that— A.—Yes.

Q.—That never was carried out? A.—No.

Q.—It did not come to anything? A.—No, just a wild scheme.

Q.—I forget what you told me yesterday as to the date—you told me yesterday, but I do not know that I am bearing in mind accurately the date at which that clause was inserted in your by-laws prohibiting loans to directors? A.—I will tell you that, sir; Jan. 31st, 1906.

Q.—Do you know what it was that caused that by-law to be passed? A.—Yes.

Q.—What was it? A.—Well, there is a little bit of history connected with that, and it would necessitate introducing the names of two gentlemen—

Q.—Who were directors? A.—Who were directors; is it required that I should do that.

Q.—I am afraid so? A.—Very well, I will tell you, sir. A few years before that one of the choicest stocks on the market, and most sought-for stock was known as the Land Security company.

Q.—You say that it was then considered a choice investment; there was some stock on which twenty per cent. only had been paid? A.—I was going to come to that, if you will allow me to tell you; in fact there was such a demand for it there was not enough to go round. Two of our directors at that time, Mr. Jaffray and Mr. J. K. Kerr, were large holders of this stock, and we made a loan to them.

Q.—Or was it that you made two loans, one to each of them? A.—That is what I meant: one to each. I think the aggregate of Mr. Jaffray's was about \$15,000 and that of Mr. Kerr about \$30,000.

Q.—Were these two gentlemen interested in the Land Securities Company? A.—I think they were directors at that time. Subsequently the boom burst in Toronto, and within a year or two after that Land Security stock became very weak in common with all other loan companies.

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Q.—Can you get a little nearer to the dates now? A.—Yes, I think I can. The Kerr loan seems to have been in 1887, and then in 1894—

Q.—In 1894—you are still speaking of the loan to Mr. Kerr? A.—Yes, 1887 and in 1894 there was a transfer from F. J. Stewart to him, but it is not necessary to refer to that.

Q.—As I make it, there was \$22,780 to Mr. Kerr in 1887? A.—Yes.

Q.—And on 85 shares of the British Canadian Loan and Investment Company and 368 shares of the Land Securities Company? A.—Yes.

Q.—And in 1894 a further loan of \$2,500? A.—And \$5,000 transferred from Stewart, making \$30,280,000. In the case of Mr. Jaffray in 1890, there was a loan of \$10,000, and in 1893 a loan of \$5,500.

Q.—That was all on Land Securities shares? A.—Yes.

Q.—Have you convenient the date of Mr. Jaffray's resignation from the Board, because he did resign? A.—Yes, he resigned, I cannot tell you exactly the date.

Q.—Apparently he resigned in May, 1892? A.—Very likely, yes. Well, to proceed with the case of the Jaffray loan, he gave all the security he could, and in 1900 he paid up the full amount with interest.

Q.—That was in 1900? A.—Yes.

Q.—He had ceased to be a member of the Board in 1892? A.—Yes.

Q.—And that was before the second loan to him of \$5,500? A.—Yes.

Q.—But after the first loan which was in December, 1890? A.—Yes.

Q.—Then that was paid up fully in 1900? A.—Yes, with interest.

Q.—I gather from the minutes that the Board during these years was very active in pressing for payment of these loans? A.—Yes, they were very anxious about it.

Q.—Now, about the loan to Mr. Kerr? A.—He gave us a mortgage on his property.

Q.—That is the residence property? A.—Yes, and it ran along for some years.

Q.—He gave you some collateral securities as well, some life insurance companies? A.—Yes, in fact he gave us everything he could. There was some stock, I think, in our company which he assigned to Mr. Blaikie in trust, and by the way, you asked me if anything had been held in trust: the stock of the company was held in trust by Mr. Blaikie: of course the company could not hold its own stock.

Q.—I think Mr. Blaikie took an assignment of Mr. Kerr's holding in

trust, and then transferred back 20 shares in trust to Mr. Kerr: that would be his director's qualification?

A.—He got that originally from Mr. McCabe.

Q.—But that was the end of the transaction? A.—I should think so, yes, something of that kind.

Q.—That the stock in the North American Life which Mr. Kerr held was transferred in trust either to Mr. Blaikie or to Mr. McCabe: it is not material at all? A.—No.

Q.—And there was a re-transfer in trust of 20 shares which would have been the director's qualification? A.—Yes, exactly. Then Mr. Kerr gave different kinds of security from time to time as he had them, and subsequently he was able to pay off a large part of the mortgage loan, so that to-day it stands at the minimum amount.

Q.—See if we cannot put it in a nutshell, and have it a little more accurately than that. You remember Mr. Kerr went off the Board? A.—Yes.

Q.—That was 'in 1898? A.—Yes.

Q.—At that time the directors were very active in their pressure in respect of this? A.—Yes.

Q.—Then subsequently Mr. Kerr released his equity of redemption in the property and became a tenant of the property? A.—There was something of that sort done; it was not registered, or anything of that sort.

Q.—And in the end the company resold the property to Mr. Kerr at a price which represented all his loans, with simple interest? A.—With interest, yes, that is correct.

Q.—And he paid a certain amount in cash, giving a mortgage for the balance? A.—Yes.

Q.—And giving other collateral securities? A.—Yes.

Q.—And that mortgage has been reduced, so that it now stands at what? A.—I think to-day it is about \$27,000.

Q.—And is the company amply secured in respect of it? A.—Well, we feel it so gilt-edged we are afraid it is going to be paid off, and in this connection of course the whole transaction was a legitimate one from the outset.

Q.—We won't speak of that, please. Neither you nor I can determine whether it was legitimate. At all events, were there any other cases in the history of your company where loans were made to directors? A.—Not to my knowledge.

Q.—Mr. Tilley reminds me that you probably only meant a security which was authorized under the Statute? A.

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—Yes, I thank you very much, Mr. Tilley. Of course we inadvertently refer to illegal securities, whereas we never go into anything only an authorized security.

Q.—I thought you were pronouncing upon the propriety of lending to a director? A.—Oh, no.

Q.—Those were the only two cases in which your company has loaned to its directors? A.—Yes.

Q.—And in consequence of the history of those transactions, the by-law you speak of was passed? A.—Yes, and also there was a resolution passed carrying out the point you first made, that hereafter after that date we would neither purchase nor loan upon stocks unless they were fully paid up.

Q.—You told me, I think, that in the case of Mr. Jaffray's loan, that was completely paid off in 1900? A.—Yes. I have a memo. for you. You asked me to get it.

Q.—I have it here, and my information agrees with yours, that in 1900 it was fully paid up, so that the company got all that was coming to them, principal and interest? A.—Yes; there was also another point that one of your people was enquiring about; we had a special deposit receipt with the Land Security Company on May 14th, 1894, of \$50,000 odd at $4\frac{1}{2}$ per cent., the custom being, you know, when we had a large bank balance—and in those days investments were difficult to obtain—we would put a special deposit somewhere at a good rate of interest. That was repaid Feb. 28th, 1895; cash \$20,000. June 30th, cash \$7,000; July 31st, cash \$5,000; December 31st, cash \$18,000, making a total of \$50,000, and the proposed security was never given. They agreed to put it up in cash rather than give a mortgage on properties they had.

Q.—And it was paid in four instalments, \$20,000, \$7,000, \$5,000 and \$18,000 in the months of February, June, July and December? A.—Yes.

Q.—The deposit having been made on the 14th May, 1904? A.—Yes.

Q.—This is a broker's sold note to you of \$100,000 on the 7th July, 1904, of Chicago and Milwaukee bonds at 95, and 20 per cent. of the bonus stock mentioned? A.—Yes.

Q.—There is just one matter in connection with these loans that I have just been speaking about, the Jaffray and Kerr loans. I see this expression in the general minutes of the Board, 20th August, about the lending of that money. It speaks of the Land Security Company having paid dividends on the shares now being

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held in trust for the gentlemen we have been speaking about, Jaffray and Kerr? A.—Yes.

Q.—And that their trustee had paid the same to this company? A.—Yes.

Q.—Who was their trustee? A.—I do not remember. I know it was put back in them.

Q.—“The shares in the company held in trust for these gentlemen and their trustee had paid the same to this company?” A.—Yes.

Q.—“The Land Security Company's stock is not held by the North American?” A.—Yes, that is perfectly correct.

Q.—Who was holding it? A.—Someone would be holding it in trust, I suppose.

Q.—Do you know who it was? A.—I do not.

Q.—Perhaps Mr. McCabe? A.—It might have been. No, I don't think so; no, he would not.

Q.—And you don't know who it was? A.—I do not. It is so long ago you know and the matter has been cleared up so that it would be difficult for me to remember.

Q.—I think you said yesterday it was the custom of the North American Life always to hold in its own name all these securities? A.—Yes.

Q.—That is something that in my humble judgment is rather of importance in the conduct of a company? A.—Yes, well we always hold everything in our own name, but I can understand that in that case it was only a partly paid up stock, there might be a call on it, that the directors would want to have put out of the Company in some way.

Q.—And you say that you have put things now by your resolution, and unless and until you alter it, in such a way that no loans would be made upon stock that is not fully paid up? A.—That is sure, and no loans since that by-law has been passed, have been made to any officer or director.

Q.—Did I ask you yesterday to have prepared for me a statement of the proportion or percentage on the policies written in any particular year which lapse in the one, two or three years following? A.—I think Mr. Kilgour may have that information. If not, if you mention it he will have it prepared for you.

Q.—The counsel for your company, Mr. Goldman, has suggested that possibly you would like to express some views upon the general questions which are before the Commission. I shall

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be very glad to have you do so, if you desire to.

MR. KENT: Perhaps it would be as well before that, that I should put a few questions that I have taken note of during the examination. He may find it necessary to express his views on those. Speaking as an insurance man, Mr. Goldman, and without any connection whatever with the North American Life, are you in favour of allowing policyholders to vote? A.—Not by proxy.

Q.—Are you in favour of allowing them to vote in any other way? A.—Yes we do under our charter.

Q.—In that case I conclude that you would be in favour of amending the present by-laws of the different insurance companies, including your own, so as to give them that right, or rather to give them the power; they did have the right but that right can only be exercised in such a way as to be practically impossible. Are you in favour of really giving them the means of voting at your meetings. A.—We would have no objection to do that, but I am going to be quite candid. You ask me and I will be quite candid; we would look with disfavour on any interference with the rights under our charter, whereby bodies of policyholders could be gotten together so that a scoundrel or a schemer could capture the company.

Q.—Then it comes to the same thing as it has already been stated before the Commission, you are in favour of giving the policyholders the right to vote, provided they won't kick over the traces. A.—Yes.

Q.—Did you ever hear of any public company who gave the right of five votes to \$100 stock subscribed before your own company? A.—I don't know. I have never looked into that.

Q.—Do you consider it is a proper proportion of voting strength to say a stockholder of \$100 shall have five votes whereas a policyholder of \$1,000 shall have one vote, that is, is a stockholder entitled to 15 times the voting strength of a policyholder? A.—Well, I think it is a very good provision for us.

Q.—I have not the least doubt of it, but put yourself in the place of the policyholder and tell the Commission if you think it is fair to the policyholder. A.—I am prejudiced, sir; we have the charter, we have this privilege and it is ingrained in me that it is a right thing to have, so that I could not answer it the way you would look at it.

Q.—Don't you think it would be fair to the policyholder to say, it would be a good thing for you to vote but as we don't know how you are going to vote it is better that you should have no vote at all, don't you think that would be the best way to talk to your intending policyholders, because your Company as you are aware makes use of this inducement to your intending policyholders that your policyholders can vote and if they are not satisfied they can step in and upset the whole thing. A.—I don't think they would argue that way, I don't see how they could.

Q.—Are you prepared to say none of your canvassers have ever argued in that way? A.—I could not say that, but I should think it would be a very foolish statement to make.

Q.—You will acknowledge, I suppose, that the policyholders cannot exercise this voting right without enormous inconvenience to themselves and that is really the reason why none of them take the trouble to come to your meetings to vote. A.—Well, policyholders as a rule don't take much interest in the Annual Meetings.

Q.—You have already stated that. My idea is to get an admission from you that the reason why they don't take much interest in it is because they know they are held by the throat and that the first squeak they would be shut off from all discussion. If a stockholder of \$100 can vote five times as against a policyholder of \$1,000 once, it will take a good many policyholders to combine to upset a very small amount of capital stock. A.—Yes, it would, of course.

Q.—What I wish to get from you is an expression of opinion as to whether the policyholders are fairly treated by the arrangement in force with the North American Life. A.—Well, of course I think so. That is our charter. But what we believe in, sir, I will follow that up, in this; Mr. Blaikie and myself believed and we are aiming at that, that at least half of our directors should be policyholders and not stock holders. We believe in that way we would give the policyholders interests a fair representation.

Q.—On another matter; you stated yesterday that rebating made insurance more costly. If the rebating is simply the handing over by the canvasser, the agent, of a portion of his commission to the insured, it does not

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increase the cost to the insurance company in any particular figure. What I suppose you had in your mind was that in consequence of the universal custom of rebating by agents the commission paid to the agents has been forced up considerably during the last ten years. A.—Yes, commissions have gone up considerably in the last ten years.

Q.—Having in view a constant rate of premium which competition amongst companies will always keep, if not uniform, at least keep it from advancing, and the constant up-thrust by the agents, or an increased commission consequent on the increasing demands by future policyholders for these rebates, can you not see, coming in the near future the moment when there will be no profits to divide amongst participating policyholders in the first instance and dividends to policyholders in the second place. A.—Well, I have not considered that, Mr. Kent.

Q.—Don't you think that it is absolutely necessary or rather that such a state of things must necessarily arrive sooner or later, if the amount of gross premiums remains the same while the expenses are continually increasing, this increasing expense must be taken from the profits, those profits go to the participating policyholders in the first case and to the directors next; if you make no profits there can be dividends to your stockholders. A.—No dividend to either party.

Q.—There can be no profits to the participating policyholder either. A.—No.

Q.—Then it seems to me it is only a question of a united effort by the agents or canvassers to get more commission, when this state of things will come to pass. If all the insurance managers acknowledge themselves unable to stop this increased demand for commission and they cannot get any more in the shape of premiums, there must come a time when there will be no profits to divide? A.—Well, on that point if the managers of the companies would be honest, one with the other, the question of rebating could be almost entirely stamped out. There would always be a black sheep or two in the flock, but it could be almost entirely eliminated.

Q.—Then I may say that you yourself are fully determined to do all that is possible, provided you have co-operation from other insurance managers? A.—Absolutely.

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Q.—That is the reply I wanted to get. A.—And we have had for the last year or so meetings and discussions on the subject, and I entirely agree with you, sir, that if we can bring that about it is going to be for the betterment of the business generally and I think it will be, I think the outcome will be all right. If I am allowed to say a few words, your honour, and gentlemen, I notice that someone made some remarks to you on the question of investments. Would you allow me to suggest that if any general amendments are contemplated in the Dominion Insurance Act, that such suggestions should emanate from the Insurance Department. The gentlemen in that Department at Ottawa have had years of experience; they should know better than anyone else what amendments are necessary for the Act to make it workable both for the companies and for the benefit of supervision. Also if the blank form of return requires amending so as to bring out further particulars and information, the suggestions should emanate from that Insurance Department.

Now with respect to the powers of investment of insurance companies. To-day we have before us what is known as the Armstrong Bill, the amendment to the New York Insurance law lately passed at Albany, and which takes effect, I believe, the first of next year. The insurance companies with their hundreds of millions are going to be seriously restricted as to their power of investment. I have no doubt that in course of time that will be modified. I will not dwell on that. It is mere opinion.

You go across the water to Great Britain and you find there that the companies have absolute free trade in investments. Now, I think for Canada we should have a happy mean. To allow the companies on this continent to have free trade in investments would be injurious, would tend to speculation, and would tend to great loss of funds. In that connection, in the Board of Trade returns the investments of the British companies are grouped. For instance, they will say here "Railway rent charge, guaranteed and preference stocks, £876,000." Heaven only knows what they are. They are never shown in detail; they are known only to the directors and officers. We may take one company here, a fine old institution, the Friends Provident Institution. The very name indicates stability. I find among their assets, "investments in commer-

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cial and other companies, debentures and debenture stocks, £417,000." Now while the stable conditions in Great Britain for enterprises of that kind may warrant the investment of trust funds in such securities, I am absolutely certain it would not be safe in the Dominion of Canada. I do not think it would be safe for us to be allowed to invest in the bonds or stocks of a cotton mill or anything of that sort. Without dwelling on that point any further, I think I have made my point clear, that so far as the absolute freedom for investment—I believe someone stated that should be the case—I would be absolutely opposed to it. There must be some restriction. Under our Act we are fairly well restricted. At the same time we have to look forward. We look backward for experience; forward for something else. Now what is the safest investment to-day that you can obtain? In my judgment it is the bonds or stocks of a first-class electric road, of an electric light company or a power company, or gas companies. All these come under the head of public utilities, but they must have an earning power. I do not believe in a company investing its funds in securities until that security is absolutely earning interest. Now you may say, so invest your funds in the Dominion of Canada. But the class of securities I have named, in the Dominion of Canada, you can count on the fingers of your hands, because you must have a population to give these securities an earning power and there is not enough to go around among the companies, and with the increase in the assets of the companies there will be a less number to go around. Therefore in that respect the companies are tied up in Canada. Now what I would like to see is in those special public utilities which have become a very favourite and safe investment in the United States, I would like to see the Insurance Act amended so as to give the Canadian companies greater power to invest in such class of public utilities in the United States. I think there should be a limit and that limit should be some proportion of the assets of the company. I won't dwell on that.

Now someone has said, why not take mortgages and debentures? We all take a certain quantity of debentures, but we all know that debentures, while an absolutely safe security—we believe so—debentures can be purchased only to earn a certain rate of interest. That is on the asset side. Now on the other

side of your account you have got your reserve. In other words, you are accumulating a sinking fund to meet your future liabilities. If that sinking fund must earn $3\frac{1}{2}$ per cent., on the other side of your account you must have assets to earn at least $4\frac{1}{2}$ per cent. if you are going to accumulate a little surplus for your policyholders and provide a small portion of the interest for the expense of the investment branch of your business.

With respect to mortgages, we can get some in Canada and we do, but it would be unfortunate if we were tied up to that one class of security, because we know very well that an investment in a mortgage never appreciates in value, and we know from experience—and no one better than Mr. Langmuir there, sir, on the right of you, from the years that we went through, that when a mortgage matures at the end of 5 or 10 years, the property has depreciated in value. That has been the experience right through Canada. Therefore it would be unfortunate for the companies to be tied up to those items.

Now someone has said—and as a rule people who express these opinions have never had the investment of one dollar to make in their lives—why not take British Consols or something of that sort? What has been the experience with British Consols? Take that old company, the Equitable, of Great Britain, founded in 1762. At one time it had 100 millions of insurance in force; to-day it has about 40 millions. It is what is known in the Old Country as a rich man's company. The policies average about £1,500 a piece. They do not employ agents, although they have a sort of gentleman who goes around to urge the policyholders for the sake of continuity to get their friends in, so that they pay no commission. Now the Directors and officers of that company have nothing to do but look after the investments, because they issue four policies a week. At their last division of profits in 1904 they had to provide £92,000 for depreciations in the value of their investments, British Consols principally.

We will take the Life Association of Scotland, a company that conducts its business at a small percentage of expense. We find in their last annual report that they had to apologize because they could not pay a dividend. They pointed out the large amount of money that had been lost in mortgages; they pointed out that British

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Consols had come down from a certain amount to a certain amount, unprecedented, and they had to provide £162,000 for these.

Now I am not going to weary you, because I could go through this thing and tell you all about these companies and what they had one, but I want to merely point out two cases and here sir is an apt case to Mr. Kent; this Life Association of Scotland, the loss of their dividends is not through the expense of their business, because their business is conducted at a moderate expense, as most British Companies are, but it has been through the investments, and they were considered gilt edged investments when they made them. Today Mr. Blaikie, the President of the North American Life Insurance Company, who has a policy in the Life Association of Scotland, 48 years old, with profits, is to-day paying the same premium as he started with 48 years ago. That is the condition. Therefore in considering this question of investments you need to consider the Canadian Companies, the surroundings, the securities we have, and while we have restrictions now we should not be more restricted. At the same time I think speculation must be kept away from the companies. They must not be allowed to speculate in securities. The company should be limited to authorized investments. I am not going to bolster up the North American Life, but we have had many beautiful schemes presented to us, where we could have made a lot of money, but our Directors would not touch them, because they said whatever we do we will never invest a dollar outside of an authorized security. I could say a great deal more, but I do not want to weary you, I want to merely to convey my ideas and I hope I have done so to your satisfaction.

MR. LANGMUIR: Before you pass from that, Mr. Goldman, do you look upon Insurance Funds as preeminently trust funds? I suppose you do? A.—Well, partly so.

Q.—Wherein do they differ from trust funds, that is funds held by a trustee for investment for widows and children? A.—In this respect, that of the Directors of a Life Insurance Company when making investments use their best judgment and discretion and there is a loss, they do not become personally responsible. Under the Trustee Act, where a trustee invests funds and there is a loss he is personally responsible. That is a very wide distinction sir.

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Q.—You know the class of securities that trustees can invest in in the various Provinces of Canada? A.—Yes.

Q.—Very restricted? A.—Very.

Q.—Mortgages, Municipals, Government Bonds? A.—Yes, very restricted.

Q.—Do you think that in the investment of insurance funds you should have greater scope than the ordinary investment of trust funds? A.—Undoubtedly, for the reason that we have to make some profit.

Q.—Well, without that what will happen? A.—If we cannot do that, then the business would have to be conducted on the without profit plan, or you would have to give the policyholders what little profit you could make.

Q.—Don't you think it would be wise first to try to reduce expenses before you come to that conclusion? A.—Well, we are trying to do that the whole time sir, and I want to say that I think that is a very important factor. In fact it is a duty imposed on all the companies that they should endeavour to reduce expenses. I make that statement publicly.

BY MR. HELLMUTH:—

Q.—I understand Mr. Goldman that you have just stated that in getting these better investments one of the objects is that you may earn a higher rate of interest than the interest charged upon the reserves? A.—Exactly.

Q.—Since the year 1900 your reserves for all those coming in and taking out policies since then are based on $3\frac{1}{2}$ per cent? A.— $3\frac{1}{2}$ per cent.

Q.—And you have been earning and are now earning about 4.85 upon your invested funds? A.—Exactly.

Q.—So that you have a margin of $1\frac{3}{4}$ per cent., a trifle over the rate on which your reserves are based. That I suppose belongs to the policyholders, it is an advantage they get? A.—Yes, it is an advantage they have.

Q.—And the result is that there is a distinct saving to the company in that respect, because you have based your premiums upon the $3\frac{1}{2}$ per cent. reserve, is that not so? The net premiums? A.—The increase in the interest means an acceleration to the profit.

Q.—We will get away from profits then. In making up your premium the first amount that you find is what is called the net premium? A.—Yes.

Q.—The net premium for a man of 40 at $3\frac{1}{2}$ per cent.—which is what you take now? A.—Yes, the standard.

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Q.—On \$1,000 would be \$24.65 according to the tables? A.—Yes.

Q.—I am not taking any insurance company's tables, but the ordinary tables? A.—Yes.

Q.—You take that premium, and then you add to that premium a certain amount for loading and profits? A.—Yes.

Q.—Anything that you make in the way of interest on the sums that come from that policy is something that might possibly reduce the premium, if the loading was enough, and you did not pay any profits? A.—Yes.

Q.—Anything that you made by the gain in mortality could do the same, you have tables again for mortality? A.—Oh yes.

Q.—And those tables are by no means reached in the experience of your company at all events? A.—Oh no. The average mortality over a term of years would probably be in our company about 75 to 80 per cent. of the expected.

Q.—That is the cost that you put insurance at, wisely perhaps, so as to be safe, is something quite considerably greater than the actual cost of insurance when you take into account the saving in mortality, and the higher rate of interest that you get on your funds over $3\frac{1}{2}$ per cent? A.—Well, I could not agree to the first statement.

Q.—What is that? A.—Because the tables upon which the premiums are based are from the actual experience of companies and in the early years of a company, while you are having an accession of new lives, it follows that the average mortality will be less than the expected, but in the course of time that will equalize itself.

Q.—Not quite. Perhaps I may be mistaken. Because the longer you have the man's money the more interest you are earning on it. That is to say if the death period is postponed you have had that money longer to earn interest upon it? A.—Yes, but in the meantime that interest is being distributed in the way of profits.

Q.—Get away from profits altogether; assume there are no profits at all; assume you start out with a company and charge the people who go into it the fair cost of what they are buying. We will assume that a man simply wants a policy of insurance to bring his family in \$1,000 at his death. You would start out by charging him what would be the net

premium according to the tables? A.—Yes.

Q.—You would make some saving on that by reason of the postponement of the period in actual results? A.—That is a debatable question. There are circumstances to be considered. In the case of a carefully managed company, where they exercise care and skill in the selection of lives, that would be the case, but we have known of cases which have not done that, and the result has been otherwise.

Q.—Then we will take the carefully managed company; assume the North American Life. There is the saving there on the expected rate? A.—Yes.

Q.—We will only deal with a carefully managed company. Then there is the saving of the interest earned at the higher rate? A.—Yes.

Q.—Therefore if you say to one of your proposed insurers, you will have to pay me as I see you charge according to your book \$27.05 premium for an ordinary life policy, non-participating, at 40, you have loaded that premium and have charged the net premium, which is some \$24, and have got enough. If you did not make this profit on interest, or if you did not have a more favourable mortality, you have got enough to give him \$1,000 at the end of that time? A.—Exactly.

Q.—Then with the better terms you can give him, and he ought to get more than \$1,000, or he ought to have something returned to him, should he not, even that non-participating gentleman? A.—Well, that is a matter than would have to result from the working out of a company that tried that.

Q.—But you never do it? A.—On the non-participating, no.

Q.—But that man is paying more than the actual cost of insurance at that low rate, in the well managed company, isn't that so? Perhaps he is not paying more than the cost of insurance if the expenses are very much more than you calculated for in the loading? May that be the explanation? A.—Oh well of course it would depend on two or three things. The matter of expense, do you earn the rate of interest, is the mortality as low as expected.

Q.—I am taking a concrete case with you. I am taking your company, that it has earned a higher rate of interest, that it has had carefully selected lives, that man is

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paying more than the cost of insurance unless his money is used up in some other way? A.—His money would be doubtless used. The rate would be required for expenses.

Q.—You would charge more than the actual amount you have loaded? A.—No doubt.

Q.—Now do you approve of the investment feature rather than what, for want of a better term, I will call the indemnity feature of life insurance? A.—What do you mean by the indemnity feature?

Q.—I have taken the straight life policy, and illustrated that; one of your own ordinary life policies, no profits, at a certain age? A.—You would call a straight life policy an indemnity?

Q.—Yes, he is promised nothing by way of investment at all, he puts his money in and his thousand dollars comes out automatically one may say at his death to his family; he has got to go on paying during his life. Now do you favour that, what I call an indemnity system, or an investment system? A.—I favor the investment system every time.

Q.—I quite understand that, and in your agent's manual you devote some 250 pages, more or less, to the various forms of investment policies, and some four or five pages, I think that is all, to the ordinary life? A.—I suppose you will find about 8 pages to the ordinary system and the reason of that is that the public don't want it.

Q.—That is you say to the men, you take this policy, and it won't only be a question of protection for your family at death, but we will give you an investment, we will give you something that you may get out of it while you are alive? A.—Certainly.

Q.—And you can to a certain extent gamble on these deferred payments, the 20 year or semi-tontine, or whatever they are called, you can take a chance? A.—Well of course I would prefer if you would withdraw the word gamble.

Q.—I do, except that we all gamble about something? A.—I know, but these gentlemen of the press, it gets into the papers. If you will be kind enough to withdraw that word gamble, I do not like that in.

Q.—I will, I won't even use the word speculate. I did not mean to use the word offensively, but you say to a man if you stay in and live for 20 years, you will be treated in a better way than your fellow members who

die before that 20 year period, isn't that so? A.—Well, just let me say there on the question of gamble, we don't like it applied to life insurance, because in the Act of George, you remember, it was actually prohibited, for reasons with which we are all familiar.

Q.—I have no doubt you do not like it, and I do not want to use it in that sense at all? A.—Now, with regard to what is called the deferred dividend or investment plan of insurance, that is sold extensively, and we put out a five-year dividend plan, we have got it out in the most attractive form possible, and a man will look at it and say, "Well, I think on the whole I will take that 20 year option policy." And what has been the result? In the last 15 or 20 years the introduction of the deferred dividend system has popularized life insurance among the masses more than anything else.

Q.—Now the man who wants anything of that kind of course has to pay a good deal more for it? A.—Than for what?

Q.—Than for the ordinary life? A.—That is without profits.

Q.—Or with profits? A.—No.

Q.—More than the ordinary life without profits? A.—Yes, he pays a small percentage more.

Q.—What I have ventured to term indemnity insurance, he has to pay a great deal more than that? A.—Slightly more. There is not such a very amazing difference.

Q.—I notice that endowment policies run up a good deal. I turn to page 83 of your book? A.—Oh yes, but then page 83, the endowment, for reasons, is an unfortunate comparison. You were talking about the life plan. Just keep to that, and see how that looks.

Q.—I will keep to that; take an ordinary life on page 21, \$32.60? A.—At age 40?

Q.—Yes, I have taken the same age of course. The other was \$27.05; this is \$32.60. Something over \$5 more on \$1,000. Isn't that so? A.—I will look it up. I am looking for the life non-participating; yes, one is \$32.60, and the other \$27.05.

Q.—A difference of a trifle over \$5? A.—\$5.55, yes.

Q.—Now that policy, the \$32.60 premium only gets a profit if the policyholder survives the 20 year period? A.—That is all.

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Q.—So that if a man who pays \$32.60 instead of \$27.05 dies at the end of 18 years, there is no more paid on his policy? A.—No, if he dies in the 19th year, take the most extreme case.

Q.—He has paid this \$5.55 in that case for nothing? A.—Yes.

Q.—He has taken the chance of that? A.—Yes.

Q.—And it is to that instinct mainly that these policies appeal? A.—Certainly.

Q.—It is not the strict securing of protection for his family that he pays that \$5 for at all, he pays it on the chance of getting it for himself? A.—Exactly. He will realize, we have had men intelligently look into this, I have had them myself, and pointed out the difference, and that man will say, "Well, I get the protection under both, I will pay the little difference with the expectation of getting some return," and they will take that every time.

Q.—You know of course that that feature of deferred dividends has, at some hands at all events, received severe condemnation? A.—I am aware of that.

Q.—You know that the investment feature has been condemned by the Armstrong Commission? A.—I am aware of that.

Q.—And you know that a perhaps somewhat celebrated writer has said that that investment system has brought about the progressive degeneration of all life insurance companies on the American continent. Have you heard such strong language as that? A.—Oh, we have read all kinds of things on the subject.

Q.—And you know that that is the system by which necessarily a large amount of the funds come into the hands of the insurance companies, a much larger amount of course because for twenty years they do not have to account to anybody? A.—Of course necessarily it must accumulate the surplus.

Q.—And you do not, I understand, approve of the system of dividing whatever there may be over the cost of insurance in the hands of the insurance company amongst these policyholders annually? A.—No, I do not approve of the annual dividend. I think the five year dividend, the British system of the five year dividend, is better than the annual dividend. Would you pardon me there, you were referring to this late Armstrong legislation?

Q.—No, not legislation, I was referring to the report. A.—Well, of course, but it comes under the Bill. We go from one extreme to the other as a rule, and a great deal of what has been written and said excepting in the case of one or two sane capable men, who we are always glad to read what they have to write, and their expressions are sound, but as a rule under momentary excitement there is a great deal of gush and nonsense written, and we are apt to go from one extreme to the other, and things are condemned that in saner moments we would take a different view of. We have to remember that.

Q.—I am not at all desirous of denying these facts. A.—We must remember that certain things that were developed in connection with the Armstrong investigation were such that they would make that Committee very severe, they could not help but to so express themselves. I am free to admit that.

Q.—You did say to me that the public, as I understood you, wanted this investment feature in life insurance? A.—That is our experience.

Q.—And that you yourself favor it? A.—I do.

Q.—And the deferred dividend system? A.—That is one deferred dividend, yes.

Q.—Now have you ever considered the fact that in the three big New York companies, I need not tell you which they are, for of course you know, 60 per cent. of the policyholders who take policies on the deferred dividend plan, never reap any benefit, that only 40 per cent. reap a benefit. Would that make you alter your opinion? A.—No.

Q.—So that although the majority according to that authority after investigation, although the majority of people who go in and pay that, in your case \$5.55, never reap any benefit from it, you would favor the system for the advantage of the minority of 40 per cent? A.—Well, they have had the protection of life insurance.

Q.—But they have paid a great deal more than it cost? A.—Very well, they knew what they were paying. It is a matter of contract.

Q.—Now is not that likely to tell very much more favorably for the rich than the poor, the man who is at all unfortunate in business or otherwise is not so likely to be able to pay the higher premiums than if he were simply paying the cost of insurance? A.—Well, of course a company will give

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a man any kind of policy he wants. It is a matter of indifference to us. If a person wants a cheap form of policy, we have tables to meet the requirements of every class of people, and we will give them whatever they want.

Q.—Pardon me, not quite a matter of indifference to you, because you favor, and your books urge, the taking of the other class of policy rather than the straight life? A.—You ask me as between the ordinary life without profits and the deferred dividend. I said I preferred the deferred dividend plan, but I say that whatever there may be there, no agent of ours can say we have urged him to sell any line of insurance. In fact I have always impressed this fact on the agent that he should consider just how much a man can pay, and not load him up with insurance that will be a burden to him in the future. That is the duty of an agent.

Q.—Now let me ask you if there is any advantage to the policyholder in there being any capital stock in a company? A.—Well, we think so in our case.

Q.—To the policyholder? A.—Yes, we have a small paid-up capital on which there is an unpaid liability. Now the Directors having a large liability there of their own, they necessarily take a great interest in the investments of the company, to see that they are safe and carefully invested, therefore there is a double protection for the policyholder. The Director and shareholder who is interested will protect himself, and in that way he is protecting the policyholder.

Q.—Well that is merely in regard to investments, of course, you are speaking now; the advantage is by having Directors who are interested in making investments? A.—Yes, which is an important factor.

Q.—Therefore on that principle, the larger the capital, and the greater the amount unpaid, the better would be the class of Director you could get? A.—I wouldn't say that.

Q.—Why not, you are measuring it by the liability at present of the Director and his responsibility? A.—No, I wouldn't say that, and I do not advocate a large paid-up capital for a company.

Q.—So far as the policyholders are concerned, the \$60,000 in your case is no advantage to them? A.—Well, now, let us move back a little. There must be a commencement.

Q.—I am not dealing with that. The company, we will assume for your pur-

pose, started with a guarantee, or a capital; I am taking it past that stage when it has its reserve sufficient, and is in a perfectly solvent condition. Then anything in the way of capital which is getting 10 per cent. simply means withdrawing something from the policyholders' money? A.—It is withdrawing a small sum outside of the interest it earns, for the protection it gives.

Q.—And you in your charter recognized apparently the possibility of wiping out that capital by putting in a provision for its repayment? A.—I believe it was put in.

Q.—You have heard that? A.—Oh, well, I know it.

Q.—That would mean it is true, a bagatelle perhaps, but a saving in interest on the difference between \$4.85 and 10 per cent. on \$60,000? A.—Yes, a mere matter of \$3,000, that is all.

Q.—Of three or four thousand dollars? A.—Yes.

Q.—I am not saying it is much in your case, but the larger the capital is, the more there is that must come out of the policyholders' funds to satisfy the dividends of the Directors and of the shareholders? A.—Yes. It is generally recognized that when a company is thoroughly successful and established that a large paid-up capital is of no earthly benefit to the policyholders, is that what you want to know?

Q.—Yes. A.—But I think that a small paid-up capital like ours is very nice. It is a sort of pendulum. It keeps the balance. It is a nice thing to have.

Q.—One's own child is always beautiful? A.—Well, it should be.

Q.—I notice you spoke about some of these English companies and their investments, but have you considered their expenses at all? A.—Yes.

Q.—And I suppose you have noticed that the ratio of expense, perhaps for many good reasons, to premium income, is very much less in English Companies than in Canadian? A.—Very much less.

Q.—And perhaps, as others have told us, one of the reasons of that is that they have nothing like the same proportion of new business each year that the Canadian companies have to the total volume of business, the English company has much old business on its books? A.—Yes.

Q.—And its new business written in any particular year does not bear the same proportion to the old business

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that yours does? A.—That is one of the reasons.

Q.—And a very considerable reason in the opinion of some; I don't know it would be with you. Do you think that is a very large reason for the difference in the proportion of expense of the English Companies, do you think that is the chief reason, that is the small amount of business they write combined with the large old business they had in force? A.—Yes, that is one of the chief reasons.

Q.—And the older the company becomes therefore the lower its ratio of expense to premium income would be? A.—Well, that would depend.

Q.—I do not mean if you take an exceptional year in which they write an enormous volume of business? A.—I do not want to take an exceptional year. Now supposing a company decides to extend its operations to Great Britain, our company thought of doing so, and I went over in 1904 and investigated the conditions. My report is there. I told the Directors exactly what it would cost; an immense outlay the first year or two; and I told them they simply could not afford it. Another company did it. I think they have spent a lot of money there, and have increased their expenses. But we have got to remember this, what they are doing has a present value of the future result, because there is more stability to the business in Great Britain than on this continent; the business is better renewed, and in a few years when that turns the corner, that company with its large outlay will have a good paying business, and its expenses will be materially reduced.

Q.—But just getting back for a moment, if a company was steadily writing up its business, increasing its new business year by year, but having behind it all the time, as it should have a larger volume of old business, you would expect that ratio of expense to premium income to be steadily decreasing, subject to such exceptional matters as you have mentioned? A.—It might for some years and then it would remain about constant. Take the case of these British companies. I can turn to two or three of them where their ratio of expense one year will be 14.15, the next year 15.10, and the next year 14.65. There are reasons for it. It does not remain constant.

Q.—But it is pretty nearly constant? A.—Yes.

Q.—Do you think that a ratio of expense to premium income of more than

double that is reasonable in Canadian companies of 15 or 20 years standing? A.—Yes.

Q.—Say 30 to 32, or 33 per cent? A.—Well, I think that a ratio of double that for some years in a Canadian company is not out of the way under existing conditions.

Q.—But you know that that is even higher than the ratio of expense in companies like the Equitable, the New York Life, and Mutual? A.—Well, their expenses vary, but it is unfair to compare a Canadian company with companies of that size. If you want a comparison you must take some of the medium sized companies there and you will find the ratio of their expenses to income is quite as high as ours, and in some cases very much higher. I can give you a list of them.

Q.—I do not want to go into it elaborately, but I want to get fairly what you say about it. You do not think, then, that it would be fair to compare the expenses or the ratio of expense of companies like the Equitable, the Mutual, and the New York Life with companies like your own, the Canada Life, and the Confederation, you would expect your company's ratio of expense to be higher than theirs? A.—We will take our own company, I would expect that our expense should be higher, because apart from anything else these companies are twice the age of ours, and therefore they have got the benefit of a large accumulation of renewals and established business.

Q.—Would you still say that in view of the extravagance—because I don't think that is an unfair word to use—of the way in which these companies have been shown to have been managed, companies like the Equitable? A.—Oh, the so-called extravagance, which amounts to a certain sum, is merely a fraction of a percentage on their income.

Q.—Now you have, I understand, favored some method of doing away if possible with the enormous cost of first year business? A.—Yes.

Q.—What you call preliminary term insurance? A.—No, preliminary term insurance is not allowed in this country.

Q.—I thought that was what you had? A.—Oh, no, I have always been opposed to preliminary term. Preliminary term was originally introduced by a foreign actuary, and it was applied only to the life plan, the effect being that it would relieve a new company of a very large liability the first

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year. It was introduced then into the United States, and at once was attached on to some endowment policies. Now that was abusing the privilege, and a gentleman eminent in the insurance profession, recognized that, and has certainly made a scientific and vast improvement on that for a young company who want to have a moderate reserve the first year. What is known as the gradual accretion in step plan for five years. The preliminary term plan is condemned by every right thinking man when applied to endowment, and we, I am glad to say, have received a letter of apology for an unfortunate reference to the American Life in there. (Points to report.)

Q.—Will you tell me what the plan is that you adopt, if you do adopt any different plan in Canada, in order to obviate the cost of the first year's insurance? A.—No, there is no plan. We under the Dominion Act have to put up the full reserve.

Q.—So there is no plan at present adopted by you? A.—No.

Q.—I thought you said there was a plan? A.—No.

Q.—I misunderstood you then. A.—You see in great Britain a company is required to show its reserve liability once each five years. Therefore a new company starting has to put up no reserve for five years. Not to expose its affairs, if it has a little bit of fund left on hand it brings it down, and that is called Assurance Fund, and that to some extent enables them to get on their feet.

Q.—You told my learned friend Mr. Shepley, I think, all that I wanted to ask about lapses, but there is one question I would like to ask you in reference to that. In your opinion should a policy remain in force until its reserve is exhausted? Assume that no payments are made, should a policy carry itself until it runs out by exhausting its reserve? A.—That is after it has been three years in force?

Q.—After it has paid for itself, because it does not pay for itself I understand, or carry itself, until it has been running four or five years? A.—Yes, that is the experience.

Q.—I am not asking that a policy should be carried by any other policy, but assume that a policy has paid for itself, and accumulated legitimately some reserve. Should as a matter of fairness—I do not know that that is an improper word to use, should that policy not continue until it exhausts its reserve, whether the

person pays up any more premiums or not? A.—Well, that is a debatable subject, and there are so many elements in connection with it that I cannot answer you yes or no, for this reason; you have to take into consideration the fact of life insurance companies to-day endeavor to insure nearly every person, and they may, in considering a man from family or personal history not good for the life plan, and they may say to him we will give you an endowment. Now if that man under the endowment plan drops his payment after a few years you would be carrying him then free, this bad life, on the term plan for a great many years.

Q.—You are taking an exceptional case, which might justify exceptional treatment. I just take the plain case of ordinary life, the \$32.60 man on that 20 year Tontine? A.—I have no opinion to express on that.

Q.—Whether he should not automatically use up the reserve? A.—I have no opinion to express on that.

Q.—If he does not, the result must be that someone else gets the benefit of that balance that would be coming to him? A.—No, he can have a paid-up policy.

Q.—I am assuming that he does not make any application? A.—Oh, that he gets nothing. That happens only occasionally.

Q.—You told my learned friend, Mr. Shepley, that you had no rebates, I understood, at the head office, that is applications to head office, the rebating system does not apply to an application that would be made direct to the head office? If I walk into your office and ask for a policy on my life from any one of your clerks or Assistant Managers, there would be no rebate offered to me under those circumstances? A.—I couldn't say. As far as I am individually concerned, I would not know, but I am afraid if anyone—

Q.—You must know, because I would pay to the North American Life a cheque for my full premium, why would you not know where that went to? A.—I do not attend to the details. It goes through the Cashier's and Accountant's Department. I would not know the result of that.

Q.—You cannot answer that question, then? A.—I could not answer that.

Q.—Whether rebates are allowed at the head office or not? A.—No, but I can only say this, if you did walk in

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we should send out for a bunch of roses, it would be such a surprise.

Q.—But I have a policy in the North American Life, and not taken out the other day. A.—I am aware of that.

MR. SHEPLEY: I certainly understood you to say to me, Mr. Goldman, that so far as your head office was concerned, where an application was made directly to the head office for insurance, that there was no such thing as commission or rebate of any kind? A.—Not that I know of. I do not know of any.

Q.—Has anybody about the office any opportunity of tolling a premium that comes in? A.—No.

Q.—Could that happen without it being known? A.—But for instance we encourage all our staff to write policies if they can, and out of our clerical staff we have developed some agents, and we will give them a commission on anything they can get.

Q.—To your clerical staff? A.—Yes, any business they can write and it might be that if anyone did come in they would take the opportunity to get that. I personally, if anyone inquires of me about insurance, I send them to our agents down stairs, because I do not believe in competing against your own agents.

MR. SHEPLEY: Mr. Goldman will quite understand that I may ask him to come again, but for the present I have nothing more to ask him. Mr. Dawson suggests that there seems to have been an error with regard to the method adopted or suggested by this company in respect of getting rid of this difficulty with respect to expense ratio by preliminary term insurance; that that was probably the result of an error in the schedule to the report of the Joint Committee, the Armstrong Committee, opposite the name of the North American Life at page 292 of the report. There should have been a cross there; instead of that there is a star. A star means, "adopted preliminary term reserve plan since 1905." The cross means, "estimated only."

JUDGE MAC TAVISH: It is right to have that explanation made.

MR. SHEPLEY: That is what mislead Mr. Hellmuth. A.—That was a star put against us instead of a cross, and Mr. Dawson explained that that belongs to the United States Life, and was inadvertently put against our company.

JUDGE MAC TAVISH: I may say that the Commission is disposed to

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adjourn over the 24th, but will expect counsel to attend longer to-morrow and on Friday if it is not inconvenient. I think we should meet at 10 instead of half-past ten, and we will not say anything about the time for adjournment to-morrow, because we will sit a little later if necessary to close this enquiry.

MR. SHEPLEY: I have every expectation of concluding the inquiry into the affairs of this company to-morrow.

(Adjourned to 10 a.m. on Wednesday the 23rd day of May, 1906.)

TWENTY-EIGHTH DAY.

MORNING SESSION.

Toronto, May 23rd, 1906.

DAVID ERRET KILGOUR, sworn.
Examined by Mr. Tilley.—

Q.—What is your position in the North American Life Assurance Company? A.—I am Assistant Actuary.

Q.—And how long have you occupied that position? A.—Since last year.

Q.—Since 1905? A.—Yes.

Q.—And prior to that time were you in the employ of the North American Life? A.—Yes.

Q.—In what capacity? A.—Clerical capacity.

Q.—And how long have you been there in a clerical capacity? A.—I have been in the North American Life practically five years.

Q.—That is from about 1901? A.—Yes.

Q.—What actuarial education have you had? A.—Well, I am a graduate of the University of Toronto in mathematics in the first place, and Associate of the British Institute of Actuaries.

Q.—Have you completed your actuarial course yet? A.—Well, I do not suppose anybody completes an actuarial course.

Q.—You do not regard yourself as quite completed, anyway? A.—I hope not.

Q.—Then have you had any person associated with you in the actuarial work of the North American Life since you have been in the position of assistant? A.—How do you regard "associated"?

Q.—Well, you speak of yourself as assistant: who is the actuary? A.—Well, there is no officially appointed

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actuary. Mr. Standon has occupied the position of consulting actuary.

Q.—Mr. Standon has been the consulting actuary, and you are assistant to him: is that the way you speak of yourself? A.—Well, I do not know as you would particularly regard it as assistant. I am assistant actuary: you can put it that way if you wish.

Q.—Is it Mr. Standon you are assistant to, when you use the word "assistant"? A.—I use the word assistant in a purely technical sense: there is no official actuary of the company.

Q.—There has been no official actuary appointed? A.—No, not since the death of Mr. McCabe.

Q.—How long has Mr. Standon been the consulting actuary of the company? A.—I really cannot say that: I suppose practically since the beginning of the company.

Q.—Even during Mr. McCabe's time? A.—Yes.

Q.—Mr. McCabe was the regular actuary of the company. Mr. Standon has been consulting actuary from almost the beginning of the company down to the present time? A.—As I understand it.

Q.—Between Mr. McCabe's death and your assuming duty as actuary, who did the actuarial work in the office? A.—Well, it has been done by the clerical force.

Q.—And matters from time to time submitted to Mr. Standon? A.—Well, matters that required to be submitted to him have been.

Q.—Have the rates charged by the company been altered to any extent during your time? A.—Oh, practically not; they have been on a $3\frac{1}{2}$ per cent. basis since I have been there.

Q.—What were they on before they were on a $3\frac{1}{2}$ per cent. basis? A.—Four per cent.

Q.—Were they ever on a four and a half per cent. basis? A.—Yes.

Q.—When? A.—Prior to 1897.

Q.—So that prior to 1897 the reserve was computed on a $4\frac{1}{2}$ rate of interest? A.—Yes. You must not confuse that. The reserve and the premium rates are entirely different. We might put on a reserve and have a premium entirely different.

Q.—You spoke of the year 1897? A.—1897, 1898, and 1899, four per cent.

Q.—And since 1900 they were on the basis of $3\frac{1}{2}$ per cent? A.—Yes.

Q.—And they are on that basis now? A.—Yes.

Q.—What rate of interest have you charged in computing reserve? A.—Well, on policies, practically the same

as in regard to premiums: on policies issued prior to 1897 we place a $4\frac{1}{2}$ per cent. on reserve, and policies issued in 1897, 1898 and 1899 4 per cent., and policies issued since that time we place up a $3\frac{1}{2}$ reserve: that is in excess of the Government requirement, because the Government only requires a $4\frac{1}{2}$ per cent. reserve prior to 1900.

Q.—The Government requirement is $4\frac{1}{2}$ on policies issued before 1900? A.—Yes.

Q.—Since 1900, $3\frac{1}{2}$? A.—Yes.

Q.—You have changed it to $3\frac{1}{2}$, and you have changed on policies between 1897 and 1900 to what? A.—As regards the reserve we changed it to 4 per cent.

Q.—Have you changed your rate of interest on the reserve to three per cent. on any policies? A.—No.

Q.—You have not taken the three per cent. reserve? A.—No.

Q.—What was the exact date when the change was made from $4\frac{1}{2}$ to 4 per cent? A.—I do not know.

Q.—Were you consulted about it at that time? A.—I do not suppose I would be consulted.

Q.—Then is the company doing anything towards preparation for any other change in rate of interest and computation of reserve? A.—Well, now, that question has come up very recently. You will understand that in connection with the class of business that we are issuing, the greater proportion of it is on the twenty year investment plan.

Q.—What do you mean by twenty year investment? A.—I mean that the dividend distribution is deferred twenty years.

Q.—The period of distribution of profits is deferred twenty years? A.—Yes; well, as a matter of actual fact when the period expires the greater proportion of those have drawn not only the surplus but the reserve as well, so that so far as they are concerned, they are out of the company. Take a policy in 1885, maturing in 1905, the probability is eight to ten that the man will withdraw entirely.

Q.—At what time? When will he withdraw entirely? A.—At the end of his twenty years. A policy issued in 1885, maturing in 1905, or a policy issued in 1884, the probability is that he will withdraw in 1904: so that by 1910, when the increased reserve is required, the greater proportion of the business that will be on a $4\frac{1}{2}$ basis will only be the business issued since 1890: there is 20 years, 1890 to 1910:

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so that at present we now have a four per cent. reserve on 1897, 1898 and 1899: so that then we will practically have an increased reserve, to be put up only on the basis of 1890, or rather, 1891 to 1896: so that that makes about six years we only require to put up in 1910. The intention at present is to gradually go back, a year at a time. Next year we will put 1896 on a $4\frac{1}{2}$ per cent. basis, and the next year the 1895 on a $4\frac{1}{2}$ basis; so that in 1910 we will practically have the entire business of the company on a $4\frac{1}{2}$ basis.

Q.—Have you put the 1897 business on a four per cent. basis by going back in that way, or did you start in 1897? A.—I do not know whether they did or not.

Q.—You say that from 1897 on it is four per cent. for some years, and then $3\frac{1}{2}$? A.—Yes.

Q.—And the idea now is to commence year by year and go back over the years and bring them to a four per cent. basis? A.—Yes.

MR. SHEPLEY: You said $4\frac{1}{2}$ per cent. twice, but I do not think you mean it.

MR. TILLEY: Q. But nothing in that direction has been done yet? A.—No, except for the years in question.

Q.—That probably was not done in the way that you propose doing the other years? A.—No, possibly not.

Q.—Then having done that, you think that when the time arrives under the Statute that your business will be all on the basis the Statute requires? A.—Yes.

Q.—Then have you had charge of the work connected with distribution of profits amongst policyholders? A.—Well, to a certain extent.

Q.—To what extent? A.—The distribution in 1906.

Q.—Then prior to that had you nothing to do with it at all? A.—No, except in 1905 I made certain investigations, with a view to the distribution in 1906, but I had nothing to do with the allocation of 1905, or any years prior thereto.

Q.—Who had charge of that work in the prior years? A.—Well, I suppose the work would devolve on Mr. McCabe and Mr. Standon, I do not know exactly how they shared the responsibility.

Q.—But after Mr. McCabe's death how was it done? A.—Mr. Standon entirely.

Q.—Well, there would be necessarily work done in the office prepara-

tory to dividing the profits, would there not? A.—Not necessarily.

Q.—Would work not have to be done in preparation for Mr. Standon?

A.—Oh, well, there is a slight amount of clerical work might be required.

Q.—Had you charge of that work?

A.—Partial charge of it: I know what was done.

Q.—Then I suppose that you know as well as any person in the North American Life office at the present time how the work was done during that period? A.—I cannot speak for the method he employed or how he arrived at his computation.

Q.—But there is no person in the North American Life office that knows more about it than you do? A.—I suppose not.

Q.—We have the best we can get when we have you? A.—Yes.

Q.—Was there any different system adopted in 1906 from the system that had been employed previously? A.—Well, I cannot answer to the system that has been employed previously.

Q.—But in this way: when you did the work in 1906 were you working along the lines that you believed to be similar to those of Mr. Standon? A.—I worked along lines that I regarded as quite similar to Mr. Standon: I did it independently of Mr. Standon.

Q.—Without any instructions from Mr. Standon? A.—Yes.

Q.—Was the result of your work submitted to Mr. Standon? A.—It was submitted.

Q.—Just when would your work be done? A.—Well, the final work was done at the beginning of the year.

Q.—At the beginning of the year 1906? A.—Yes.

Q.—In January do you mean? A.—Yes.

Q.—And when it was completed it was submitted to Mr. Standon? A.—Yes.

Q.—Then was there any discussion as to whether your method of distribution of profits was the same as his or not? A.—No.

Q.—Nothing at all? A.—No.

Q.—And you say that you cannot give us any definite information on that? A.—No.

Q.—Did you prepare the memo. that was sent in to the Commission headed "Profits," which deals with that subject in a general way? A.—Yes.

Q.—This is prepared by you? A.—Yes, that is prepared by me. I have a copy of it, and I will follow you.

MR. TILLEY: Probably, as this describes the method in which the work

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was done as shortly as it can be put, we had better make this an exhibit. (Exhibit 143.) And then we can refer to it as we go along.

Q.—You say “Regarding the method adopted by Mr. Standon, that under the advice of Mr. W. T. Standon, the consulting actuary of the company, who annually apportioned the surplus divisible under all classes, and upon the concurrence of Mr. William McCabe, the late Managing Director and Actuary of the company, it was decided to distribute moneys thus surviving the deferred distribution periods, and entitled thereby to share in the surplus in proportion to the original estimates, the percentages thus adopted have been those which, in the judgment of the consulting actuary, fairly represented or reflected the business conditions over a period coincident with the duration of the policies so shared.” That is the description in a general way of the method employed before you did the work in 1906? A.—As I understand it.

Q.—How did you get that understanding? A.—Well, I discussed the matters generally with Mr. Standon; he was here in the summer of 1905. The general question of distribution came up for consideration, especially at Mr. Goldman's request. It was considered then. The advisability was considered of adopting a complete system of bookkeeping for the surplus of certain investments that were made—

Q.—When you say it was considered adopting a complete system— A.—Yes.

Q.—What do you mean by that? A.—I mean the bookkeeping, accounting.

Q.—Something more accurate? A.—Not necessarily.

Q.—Then it was considered that a change should be made or discussed, at any rate, at that time? A.—Yes.

Q.—Then your statement that your method might or might not be the same as Mr. Standon would not be quite correct, would it? You knew from your talk with Mr. Standon that this method you were going to adopt was different from his? A.—It did not necessarily follow it would be different; if we made different records in the book it would not necessarily follow that the system was different.

Q.—And from knowing what you learned from Mr. Standon, can you say whether he, when he made his computation, did it in the same way that you have done it or not? A.—Well, I do not expect he did it in the same way—not exactly in the same

way. I cannot tell you exactly how he arrived at it.

Q.—Have you asked him? A.—I have asked him.

Q.—Have you been answered? A.—Let me explain the point here, and probably it will settle this question without going very much further into it. Supposing an analysis was made—I am supposing this in the meantime, and I understand it is the case—supposing an analysis was made in 1900, supposing an absolute, accurate analysis was made, of the business conditions of the previous 20 years, and supposing in that year they arrived at an accurate basis for dividing the surplus of that year, well, now, it would be a comparatively easy matter from year to year to adjust the payments.

Q.—Well, now, did Mr. Standon, when you asked him how he arrived at his basis, or on what basis he divided the profits, give you an answer: that is what I asked you? A.—What I understood from Mr. Standon, and what I have stated there in that question, is this: that the figures and statistics were provided by Mr. McCabe, and together in consultation they arrived at a basis of payment.

Q.—Do you understand they made a basis of distribution at a certain period, a certain time, and then afterwards used that as a basis for further distribution of profits? A.—Yes, I understand that.

Q.—Then the first computation you say would be accurate? A.—I judge it would be. I do not suppose Mr. McCabe would do anything that was not accurate.

Q.—The other computations would not be accurate, would they? A.—Oh, I think they would be approximately very accurate.

Q.—But they would not take into account the difference in the change in the rate of interest? A.—Oh, that can be very easily done. I can show you a calculation that it would be very easy to make that change. Now, for instance, take the case of twenty payment life policy: supposing that 20 years ago the rate of interest earned was six per cent.: supposing that it is reduced now to four per cent.: that is purely hypothetical, but it will do for illustration. Well, now, the policies entering in the 1905 class, or, say, issued in 1885, would have one year longer, with the rate of interest at six per cent., than the policies starting at 1886, and correspondingly they would

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have one less year at four per cent., so that on the aggregate, those sharing in 1905 would be entitled to an aggregate saving, excess, rather, in interest of two per cent. You see that?

Q.—Yes? A.—Now, two per cent. spread over a period of 20 years would be an average of a tenth per cent. in that year, and it would be a simple matter of mathematics to determine what would be made by that system—

Q.—Would you adopt that system? A.—I think it would be quite accurate.

Q.—Have you adopted it? A.—I have not adopted it this year.

Q.—Why not? A.—Because I made an accurate analysis this year.

Q.—What do you propose doing next year? A.—That will decide for itself.

Q.—You are an actuary and you would have certain fixed notions about your duty and how you propose to carry it out? A.—If we make an accurate analysis of the business we would have to do it exactly.

Q.—You propose to have an accurate analysis next year? A.—No, we may not. It may not involve the same work it entails this year.

Q.—Not so much work? A.—Put it that way.

Q.—And the following year the same? A.—Yes.

Q.—You do not propose to distribute your profits by the work you have done in 1906? A.—Well, that does not follow at all.

Q.—Taking that as the basis? A.—That does not follow at all. If it were not for the fact that we intend to introduce a system of bookkeeping in our profits, I do not think that additional work would be necessary from year to year. I think that the matter of surplus payment would be quite easily adjusted.

Q.—What do you mean by introducing a system of bookkeeping? A.—The distribution of profits is a matter which the company has to deal with, and I won't say I am entirely competent to deal with it. I have my own notions, and I am working with that in view.

Q.—Let us have your notions? A.—Well, I am probably considering the system which Mr. Papps has described here.

Q.—You say you would take the system Mr. Papps outlined in his evidence? A.—I may adopt that: that is under consideration.

Q.—In the work you have been doing in 1906 have you not had regard to some system in doing this work? A.—Well, it has not been fully decided on yet what we will adopt in 1907.

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Q.—That is not quite the question I asked you. In doing your work for 1906 have you not had some definite system in view? A.—No, not for the future.

Q.—You have just been dealing with the one year, 1906? A.—Yes.

Q.—You have not stated on the plan Mr. Papps outlined in the way of keeping an accurate account for each policy? A.—No.

Q.—Do you propose to do that? A.—I cannot tell you.

Q.—You cannot say? A.—No.

Q.—Is there any better method that you know of? A.—Well, I think that method probably entails some unnecessary work. I won't say that, because I have not made a sufficient analysis of it yet. There are other methods employed, but I think myself it is probably as satisfactory as any.

Q.—Other methods more or less lump results, do they not? A.—Well, I do not know that you need put it that way, because I consider that if the analysis made in 1900 was a correct analysis, and we made an analysis in 1905, we would have a correct and proper basis on which to divide our surplus.

Q.—That is to say, you would have a proper basis in 1905? A.—Yes.

Q.—Supposing a proper analysis was made in—what was the first year you gave me? A.—I understand it is 1900.

Q.—Was a proper analysis made in 1900? Do you know that? A.—I understand that Mr. McCabe provided Mr. Standon with figures in 1900 and together in consultation they decided on the basis of payment.

Q.—Do you know whether there was an accurate analysis of everything that is considered to be necessary in order to have a proper division of profits in that year? A.—That I could not say.

Q.—Then that basis for argument is not quite clear in your mind? A.—I presume that a man of the eminence of Mr. McCabe would not do anything in a slipshod manner.

Q.—If you made an accurate analysis in 1900 you would have to make a similar analysis in every year afterwards, would you not? A.—Not necessarily. I just described to you as well as I could.

Q.—It would be approximate? A.—Yes.

Q.—Do you say as an actuary that it is proper to divide the profits in that approximate way? A.—Well, I

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think it does substantial justice to the policyholders.

Q.—However, you have decided on a somewhat different method? A.—Well, that is not in order to do a greater justice to policyholders at all. It is simply for the purpose of adjustment in the office.

Q.—You speak of the different factors that must be considered in making your computation: tell us what they are? A.—Well, there is the lapse ratio, the rate of interest, the rate of mortality.

Q.—And the expense I suppose? A.—And the expense.

Q.—Then when you speak in this memo under number 3, discontinue, you are there referring to lapse ratio, I suppose? A.—Yes.

Q.—And surrender and so on? A.—Exactly.

Q.—All policies that are discontinued in any way? A.—Yes.

Q.—How does the mortality of the North American Life compare with the tables? A.—Well, I will tell you, in this connection we have assumed there—I think it is a generous assumption—we have assumed a saving of thirty per cent. on mortality.

Q.—That is to say, the mortality in the North American Life is just 70 per cent. of the H. M. table? A.—I am assuming in the last 20 years that it has been 70 per cent. I have regard of course, there for the known facts for the last few years.

Q.—The known facts for the last few years: what years do you mean? A.—This year our mortality was 60 per cent., and last year 70 per cent.

Q.—How many years can you go back? A.—I have not made any calculations past that, but I have heard Mr. McCabe and Mr. Standon say that the expected mortality remained about 70 per cent.

Q.—That does not seem to have been kept very accurate in your office, either. A.—I do not know whether it was or not; I am not responsible for that.

Q.—It is not a case for responsibility; we are simply trying to ascertain the facts? A.—Well, I do not know that.

Q.—But there is nothing that you have been able to find in the office that shows any proper record of that being kept? A.—I have not observed any record.

Q.—That is one of the items that must be considered in adjusting profits? A.—Undoubtedly.

Q.—And all you can say about that

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is that you find no record in the office that shows an exact record of that has been kept? A.—You can get that by calculations.

Q.—I am not asking that? A.—No, I have not found any record of that.

Q.—What have you to say about the interest? A.—Well, of course that is exactly found—

Q.—There would be no trouble about that? A.—No, that is exact.

Q.—Then discontinuance? A.—Well, that is exact.

Q.—What you say here is that, "A special rate of discontinuance was determined for both the 20-year and 15-year distribution classes. For this purpose an analysis was made of the policies issued in several years, and an account taken of the premiums paid during their currency. While direct adherence to classification according to years would have been preferable, had the magnitude of the business permitted, the advantages accruing from the adoption of a trustworthy average, and the continuity thus attainable in the results of continuous years, made the construction of an average or aggregate table desirable." You are speaking there of the way you did it in 1906? A.—Yes.

Q.—There again do you find any record of previous years? A.—I have never observed any record. When I say I have not observed any record, it is quite possible and it is likely a fact that records were made, but understand that mathematical records are not always kept in our office—not always preserved.

Q.—Do you say a record that would be compiled of these important matters relating to the distribution of profits among the policyholders would not be preserved? A.—Oh, but that is past history.

Q.—It is past history, but is it not all useful? A.—Not necessarily; we would not use it in the computation of 1906.

Q.—Would you destroy your record on which you had based your distribution of profits in 1906? A.—As a matter of fact I do not think I will destroy it.

Q.—In fact you will be very careful not to destroy them, but will preserve them? A.—I will try to preserve them.

Q.—And if any such record had existed for previous years the probability is that they would have been preserved? A.—I do not think so at all. Mr. McCabe had a peculiar way of his

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own. He had a lot of records, and did not take anybody into his confidence.

Q.—He was not the sort of man that would destroy his records? A.—I do not know whether he was or not.

Q.—You are speaking of him? A.—Well, I think he probably did. I do not think he considered it necessary. He was not a man to keep his records if he did not consider them necessary.

Q.—Then take the heading "Expense," the last item: that you say must be construed in making an accurate distribution of profits? A.—Yes.

Q.—Have you found exact computations for expenses kept or preserved? A.—Oh, well, that is not necessary to keep, because you can make them up at any time.

Q.—We will just see what you have said about that: "In determining the rate of expense to apply, the following plan was followed: the general expense of the company, excluding those of investments, was determined and apportioned between the new and old business on a basis of eight to one"? A.—Yes.

Q.—How did you arrive at that? A.—I analyzed the business of several years, analyzed every element of expense.

Q.—Tell me on what basis the division between first year expenses and renewal expenses was divided in any previous year? A.—I cannot tell you that.

Q.—You say this matter of expense would be the thing that would be so easy to determine exactly? A.—But I do not know how they did determine it, though.

Q.—That eight to one—that is eight dollars for first year business as against one dollar for renewal business? A.—Exactly.

Q.—Of business? A.—Yes.

Q.—That is just an approximation by you? A.—Well, it is a very close approximation.

Q.—I am putting it that way, that it is an approximation: I am not saying it is not close? A.—It is an approximation on actual facts.

Q.—You cannot prove it to a mathematical demonstration? A.—It is not necessary.

Q.—I am not asking that question? A.—That is right.

Q.—It is an approximation? A.—Yes.

Q.—So that that is an item that different persons would probably make a different approximation for? A.—It would not bring out different results.

Q.—Why? A.—Because if you take eight to one, and if you take nine for the first year expense, it would be slightly less than one, so that over a period of 20 years the same result would be practically attained.

Q.—You think it makes no difference what proportion you divide the expense? A.—It does to a certain extent: it will if the discrepancy is large, but if you get it as approximately and as accurately as you can get it—

Q.—I am not complaining of it for the present. I am getting the facts, that that is a matter of an approximation merely, in the way you have done it? A.—I do not like the word "approximation" there.

Q.—You cannot say that the ratio that you used for 1906 was the same as Mr. McCabe used in 1900; you cannot say? A.—No, I cannot say that.

Q.—And you have no means of knowing how he divided the expense? A.—No.

Q.—As between first year and renewal? A.—No.

Q.—And if you divided them differently from Mr. McCabe, and they should have been the same— A.—Not necessarily.

Q.—Then that would bring out a different result? A.—Different result.

Q.—It would depend upon the difference in figures: a little difference would make a little difference in the amount? A.—Probably, yes.

Q.—You say that that is a fair division? A.—Yes; for instance, the New York Life takes six to one, and they find it works all right with their company.

Q.—Could you tell me any other companies? A.—I do not know of any other companies; I am not very familiar with them.

Q.—Where did you get the information about the New York Life Company six to one? A.—Mr. Hunter, the associate actuary, told me.

Q.—Assuming the New York Life was right—whether they were right or not would depend upon whether your expenses were much larger than the New York Life for the first year? A.—It would depend on a good many elements.

Q.—Your expenses for the first year are very high as compared with other companies? A.—I do not know about other companies. I never regarded our expenses as exceptionally high.

Q.—I suppose you have seen these gains and losses exhibit of policies, for

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1904, that is printed in the report of the Armstrong's Committee's work?
A.—I think I have seen it—yes, I have seen it.

Q.—It is given at page 292 and that puts your first year expenses very high does it not? A.—How do you reckon first year expenses? Are you reckoning on the basis of the premiums or on the basis of the loadings?

Q.—I am taking it on the per centage given here; is this a computation of first year expenses; is that what this table shows? A.—I do not understand that method very accurately myself, but I think it is a per centage in regard to the loadings and not in regard to the premiums. It also takes into account the saving from mortality in the first year.

Q.—I notice here that the per centage for the North American Life of first year expenses is 467 per cent.? A.—Yes.

Q.—And there is no other company as high as 400? A.—Well, of course you mean—

Q.—Take that statement— A.—I will take that as a fact because the figures are there.

Q.—The next company is 372, which is the Union Mutual, and then the next company is about 339 or 350—no, there is one 350? A.—Yes.

Q.—Yours is 467—

MR. BARWICK: Q.—Does this table refer to anything more than New York business? A.—No.

MR. TILLEY: Q.—This is page 292. I will give you every opportunity to say anything you want and I only hope you won't forget what you want to mention when I am through? A.—I would suggest that instead of using that you use the figures of the present year.

Q.—No, let us take 1904? A.—All right.

Q.—The per centage here for the North American Life was 467, and that was, is it improper to say, very high as compared with the other companies, as shown by this page, whether it is right or not? A.—Do you mean expenses are very high?

Q.—That per centage is very high? A.—That per centage is very high, but I do not say it is the per centage of expenses.

Q.—What is that per centake expenses, 467, if it is not an expense per centage? Does this statement refer to all the business of the North American Life in New York State and outside of New York State? A.—I think so.

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Q.—Or just the business in New York State? A.—All the business.

Q.—You understand it refers to all the business? A.—Yes.

Q.—What were you going to say about that per centage? A.—I should say that that per centage is an extremely variable quantity as you will note from the figures there.

Q.—I was going to ask you if you were going to say that this was in any way unfair to your company? A.—No, I do not think so. It was unfair in this way, that we had no mortality saving in that year.

Q.—In that year 1904 you were unfortunate with regard to your business written in that year? A.—Well, in that particular year we had a heavy mortality.

Q.—Your expected losses in that year amounted to \$24,191? A.—Yes.

Q.—That is what you would expect? A.—Yes.

Q.—And the actual losses amounted to \$24,000? A.—Yes.

Q.—So that your expected losses practically all fell in that year to be paid? A.—Yes.

Q.—And ordinarily you should have had a saving of what per centage on those expected losses? A.—You can hardly say that usually it is supposed to be fifty per cent.

Q.—Say half? A.—Yes.

Q.—So that you might have expected to save half that item of \$24,000? A.—Yes. For instance, this year the expected is \$23,000, and our actual losses are \$4,000 or \$5,000; so that that would average up.

Q.—If you had fifty per cent. that year, that would be about fair? A.—Yes, you can put it that way.

Q.—So that you should have had a saving of some \$12,000 on that item of \$24,000? A.—At least.

Q.—That would make the per centage still over 400? A.—I have not figured it out. Our figures for this year are a little over 300 I think.

Q.—In 1904 they were very high? A.—Yes, they were exceptionally high that year.

Q.—Can you say why in 1904 they were exceptionally high, except for this one item, which we have made allowance for now, and still get it over 400? A.—It is quite possible there is another reason for them being high there. The method of computing the loading by the various companies may not have been exactly the same; for instance our net premium, the true net premium,—the way the premium is loaded on the twenty payment life

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is by taking twenty per cent. of the net premium, and adding three dollars—

Q.—Are you speaking of the way you did it? A.—No, this is the regular way of doing it, but as a matter of fact there is an extra provision for the increase between the three and a half and the three per cent. on reserve at the expiration of the investment period; so that as a matter of fact we automatically took out of the loading something to make up a correct net premium; so that we take an example here, and we assume that the net three and a half premium is \$20; twenty per cent. of that will be \$4; and the loading of \$3 will make it \$27. We do not regard that \$20 as our net premium, because the extra amount we would require to take out of \$7 loading would be probably a couple of dollars to make up the increased reserve at the end of the 20 years.

Q.—Do you know whether your method is any different from other companies in that respect? A.—I do not know; I think there must be a difference in that.

Q.—How is it that your first year expenses dropped from 467 in 1904 down to 300 last year? A.—That applies especially to the mortality.

Q.—Taking the mortality, giving you the benefit of the mortality in that year, would only bring it down to about 400? A.—To get the exact figure for 1905 you would have to take the profit and loss.

Q.—Is there anything you can point out that you have in mind now that explains that large difference between the two years? A.—I do not know of anything.

Q.—When you are comparing yourself with the New York Life, the New York Life per centage for first year business was 260; so that that does not give us much help because the expenses of the New York Life divided according to this, for first year expenses, were only 260 per cent. as against 467? A.—I do not know how they divided. They had a different system of keeping profits. I might say further in connection with that, that that loading was rather hurriedly prepared, and may not have been accurate. A very slight difference would reduce that 467 to 367 as you can easily see in the figures.

Q.—But you have no reason to think since you have made that statement out or since it was made out, that it was wrong? A.—Well, I really do not remember the exact figures.

Q.—Did you make out that statement of loading? A.—I do not think I did.

Q.—Then is this table one that you have made out, headed "Surplus contribution for whole life, year of issue 1886, year of surplus distribution 1906? A.—Yes.

Q.—That is a twenty year period? A.—Yes.

Q.—Age, 30, gross premiums \$21.60 for \$1,000 insurance? A.—Yes.

Q.—Then that statement is accurate at any rate? A.—Yes. (Exhibit 144.)

Q.—Then this shows the fund per thousand that you would have at the end of the first year if there was any reserve required? A.—Yes.

Q.—And that fund at the end of the first year would be 55 cents? A.—Yes.

Q.—But the reserve for that year is \$8.86? A.—Yes.

Q.—So that there is a deficit of \$8.31? A.—Yes.

Q.—In the first year? A.—Yes.

Q.—In the second year the fund would be \$17.05 and reserve \$17.99? A.—Yes.

Q.—So that there is still a deficit in that year of 94 cents? A.—Yes.

Q.—Then the fund at the end of the third year is \$34.44? the reserve \$27.42, and the surplus at the end of that year is \$7.02? A.—Yes.

Q.—So that the policy must run beyond the two years before it has answered all the expenses and satisfied the reserve? A.—That is with regard to the issue of 20 years ago.

Q.—That is with regard to the issue of 1886? A.—Yes.

Q.—Is it better now or worse? A.—Well, I do not know whether you call it better or worse. It takes a longer period to reach the reserve.

Q.—Due to what? A.—I suppose undoubtedly due to the increase of the first year's expenses.

Q.—Undoubtedly due to the first year expenses? A.—Yes.

Q.—How long would it take now that the policy would be self supporting? A.—It differs with different policies. I should say on the average between 4 and 5 years.

Q.—At the end of the fifth year you think it would be— A.—Some cases the fourth and some cases the fifth.

Q.—But all by the end of the fifth year? A.—Put that as an average.

Q.—And all due to the increase of first year expenses? A.—Yes, I assume so.

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Q.—Which applies to your company as well as all others? A.—I presume so.

Q.—And how do you account for that? A.—I cannot account for the increase of expenses.

Q.—According to this table your company would seem to be a little the leader in that respect? A.—According to what table?

Q.—According to this table of the Armstrong Commission? A.—I do not take that table as a basis.

Q.—You have not criticised it very vigorously? A.—Well, I said the element is extremely variable.

Q.—At any rate, you are not one that is being led by the others, if that table is correct you are rather leading? A.—In the expenses?

Q.—Yes? A.—According to that particular table and according to that particular test.

Q.—I suppose that until the policy has received premiums sufficient to answer the expenses and its own reserve, that the money for its expenses and the reserve must come from other policies? A.—Yes. Of course I think in the first place you should not confuse the purpose of a reserve. It has an entirely different function to play than the computing of profits.

Q.—What do you mean by that? A.—The fund is exactly the same whatever reserves you use; it does not affect the fund in the slightest if you use a slight reserve in the early years, the fund is intact, it simply means that you have a smaller reserve and a larger surplus, it is not going to affect the fund. It cannot affect it.

Q.—When you speak of the fund you speak of the lump assets of the company? A.—I speak in respect of that the fund for any particular policyholder. We are speaking of that table now, of course?

Q.—Yes? A.—Well, that fund as marked there is not going to be affected by the reserve you use at all.

Q.—No, but so long as expenses have been paid out for that policy and a reserve is required to be set aside in respect of that policy which has not been earned by the policy itself, the money must obviously come from some other monies, must it not? Some other fund? A.—Well, you can put it that way.

Q.—That policy becomes indebted to the funds of the Company? A.—You can put it that way. That is right. I do not like the word indebted there, but still it is correct for the purpose here.

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Q.—Yes, I think so. And it takes four or five years you think for that policy to repay this money that is borrowed from monies contributed by other policies? A.—Yes.

Q.—While that is due, you say, to the high expenses I suppose it is due to some extent also to the reserve, that is if the reserve was not so high it would not take so long for the policy to be able to stand on its own premiums? A.—No, it would not. That is right.

Q.—Are you prepared to express any opinion as to whether that reserve is required? A.—Well, as I said before, the reserve should not be confused with the system of profit distribution. The reserve has an entirely different function to play. The reserve is arrived at in order to express the average liability of the company in respect of the qualities in force. As I say the fund is not—

Q.—Is not increased or diminished by it? A.—No.

Q.—It is not a fund that is paid out by the company? A.—No, it is not a fund that is paid out. It is a method of book keeping.

Q.—It is a method of showing solvency? A.—Yes, that is it, exactly.

Q.—But the company might be solvent even though it had not all the reserve that is required would you say, in respect of early policies, new policies? A.—Of course when you speak of solvency, you do not speak in respect of the early policies or of all the policies.

Q.—Yes, I am assuming that the policies after the first few years have their full reserve. Now would the company in your opinion be perfectly solvent without being required to keep that reserve for the younger policies? A.—You are taking up the question of reserves now and leaving the question of surplus there. I do not feel competent to express an opinion as to the practical system of putting up reserves. I think the present system, that is the H. M. 3½ table and 4 and 4½ is sufficient and adequate for the older companies; it may be a little too severe for the younger companies.

Q.—Then I think you have already told us that the expenses having increased recently, that the showing would upon policies issued now be worse than this table that you have prepared? A.—It would take a few years longer to reach the reserve.

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Q.—Then have you compared the results that were obtained by your method of computing profits with Mr. Standon's method? A.—Well, Mr. Standon has not a method for the 1906 distribution.

Q.—You say he had not a method for the 1906? Would you not stop and say that he had not a method? A.—Oh no.

Q.—You would not stop there? A.—No.

Q.—You do not think it is proper to say that Mr. Standon was entirely an approximation of profits? A.—It would be entirely unfair for me to say that.

Q.—Have you compared your method with the results obtained by Mr. Standon in 1905? Yours for 1906? A.—You mean comparing the results with his results, or my method with his?

Q.—No, results now? A.—Well, they are slightly less. We have paid slightly less surplus in 1906 than we paid in 1905.

Q.—That is you distributed slightly less profits to your policyholders in 1906 than you did in 1905? A.—Exactly.

Q.—You are speaking now, are you, of the total? A.—No, as a matter of fact it applies both to the total and individually.

Q.—There was a difference in individual policies and also in the total. Here are some figures, I do not suppose you have seen these, but you can verify them probably. It is said that 10 Payment Life at age 25 in 1905 was 60, as compared with your 62 in 1906. Would that be right? A.—Well I guess it must be right. I cannot recall the figures though.

Q.—That agrees with your recollection? A.—Well I do not recall exactly what was paid in 1905.

Q.—Have you anything here that would show that? A.—We can show it from our records quite easily.

Q.—It is said that these are the figures that were given, so probably we had better put in this memo of the dividend results that you furnished and that will illustrate that point? A.—Yes. (Memo of dividend results filed as Exhibit 145.)

Q.—Those sheets would appear to indicate that the difference in that policy was as between 60 and 62. That is yours was 2 more in that policy. A.—Yes.

Q.—Then in a 10 Year Endowment at age 35 the figures apparently were the same, 113 for Standon in 1905 and 113 for you in 1906? A.—Yes.

Q.—In the 15 year Period distribution at age 35, life policy, Standon allowed 111 in 1905 and you allowed 113? A.—Yes.

Q.—Now the 15 Payment Life at age 25 he allowed \$100 and you allowed \$114? A.—Yes.

Q.—Now that was a considerable difference there, wasn't it? A.—A slight difference.

Q.—15 Payment Life at age 45, his was 163.50 and yours 183? A.—Yes.

Q.—Now take the 20 year policy at age 25, Life Policy, about 160 Standon and yours 155? A.—Yes.

Q.—At age 45, 325 Standon, yours 296? A.—Yes.

Q.—There is a substantial difference there, some \$30? A.—Yes.

Q.—20 Payment Life at age 25, his was about 220 and yours 210? A.—Yes.

Q.—At age 35 his was 280 and yours 261 A.—Yes.

Q.—A 20 Year Endowment Policy at 25, his was 388 and yours 350? A.—Yes.

Q.—And at 35 his was 405 and yours 364 A.—Yes.

Q.—Some \$41 difference there? A.—Yes.

Q.—So that in certain policies and at certain ages there was a substantial difference between you in some cases? A.—Well, I should say that it is a difference.

Q.—Then if there was that difference between your computation and Mr. Standon's that shows that one of you must have been incorrect? A.—Not at all.

Q.—It is either one of you incorrect or both of you? A.—Well, I should say that in the matter of surplus distribution that even the most eminent actuaries will hit upon different plans. I should not say hit upon, but in their judgment they will adopt different plans of distributing surplus.

Q.—But if they are both done accurately? A.—The aggregate results might be brought out the same. If you take the case of the New York and Equitable Life, 20 Year Endowment, the Equitable starts at a comparatively low surplus at the earlier ages and ends with a comparatively high surplus at the older ages, whereas the New York Life starts higher than the Equitable and ends lower, although on the average they probably paid the same amount.

Q.—Was the plan adopted by the Equitable not the same as Mr. Standon's plan? Wasn't that just the

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difference? I am told that this is the difference between those two cases you have been mentioning now; that Mr. Standen's system and the Equitable was practically the same, or lack of system? A.—I don't know.

Q.—You don't know about that? A.—No.

Q.—Then is this Memo one that you prepared? A.—I did not prepare that.

Q.—It is prepared from your material then, furnished by the company. It is headed memo. This is a statement showing the number of policies that survived the term? A.—Yes. (Exhibit 146.)

Q.—Of 5 year policies issued in '99 there were 16? A.—Yes.

Q.—And those that completed the term of 5 years, that is in 1904 were 9? A.—Yes.

Q.—That is to say of the 5 year policies that were issued in 1899, 60 per cent. of them ran through the term? A.—Yes.

Q.—And the other 40 per cent., what about them? A.—They must have gone off in some way or another.

Q.—So that of 100 persons that would insure, taking a 5 year distribution of profits, 60 would get profits and the other 40 would not reap any benefit? A.—It would be hardly fair to take that as an average when there are only 16 entering.

Q.—You think there is not a sufficient number of policies written there to make a proper computation? A. Oh, undoubtedly.

Q.—Then let us go on to the others. Here are the 10 year policies. In 1894 there were 23 written and 13 of them survived the period? A.—Yes.

Q.—Is that still unfair? That would be 60 per cent. surviving, the same as the other? A.—I guess that is about fair. No, I think that is not, it is not very large.

Q.—Then 15 Year policies issued in 1899.—138 issued and 52 survived the 15 year period? A.—Yes.

Q.—That is to say 40 per cent. of the persons who would insure with the 15 year distribution of profits would get some profits and the other 60 per cent. would not get any? A.—You must remember in that connection this hardly shows a fair discontinuance rate, because of that 138 there would probably be 20 that hardly paid a dollar on the premium.

Q.—You are speaking of policies that were not taken or lapsed in the first year? A.—Lapsed.

Q.—That enters into every company's business? A.—Yes, but that does not give an accurate discontinu-

ance rate and that is what you are arriving at. Supposing of that 138, 20 of those policies had only paid \$5 and supposing the average premium is \$40, you see that really that would be similar to 1-8th of 20 people entering that class, so that instead of that being 138 you would have to reduce it by about 18, so that it would be equivalent to 120 entering that class.

Q.—You are speaking of persons who actually entered the class and their policies lapsed or became claims after the first year. Is that what you mean? A.—Yes.

Q.—I am not concerned with that, but taking a fair percentage of the number of persons who take policies of that kind, and I want to get at the percentage of the persons who actually get any profit. According to that there were only 40 per cent. of the persons who entered that class that got any profits from being in the class. Now is that fair or unfair? I want to find out just about how many people get any benefit from taking this chance as to profits? A.—Well, I don't consider that a man entering a class and only paying \$5 is entitled to much benefit. I don't really regard him as getting into the class and we do not so regard him when we make an analysis.

Q.—Take the 20 year policies issued in 1884. There were 440 issued and 161 survived the period. That is 37 per cent.? A.—Yes.

Q.—That means that 63 per cent. of the persons that entered in that class, taking "entered" in the broad way and not the restricted way you think is proper, 63 of them got no benefit from the profits of the company at all? A.—Well, you can put it that way.

Q.—63 out of 100 insuring in that way would get no benefit at all? A.—Well, as I pointed out before, they are not entitled to benefit, a great many of them.

Q.—None of them are entitled to benefit; that is their contract? A.—But you take a premium of \$40 and a man pays \$5. I regard that as only 1-8th of a man entering the class.

Q.—That is because his payment is so small? A.—Because he paid a very small amount.

Q.—If he paid for 2 years you would have another fraction? A.—We would have a fraction of a man entering the first year and a fraction of a man entering the 2nd year.

Q.—He would be a whole man if he

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reached the twentieth year? A.—Oh yes.

Q.—All that fell by the way for any cause you would divide into parts of a man because they did not stay in to the end? A.—In order to get a rate of discontinuance we do.

Q.—Are not those about the same percentages that were brought out in the case of other companies, the Equitable and New York Life? A.—I do not think they are very far out.

Q.—I am not making it applicable to your company in particular for the present but simply endeavouring to get some information as to the number of people who usually get through those periods? A.—I think a fair test for that would be to use that test table that I have provided. I think that shows about 44 per cent. surviving. 44 or 45. And that would show the discrepancy that is made up by that, above.

Q.—In that table you eliminate those persons who, as you say, do not really get into the class? A.—Well, you partially eliminate them.

Q.—So that you make that 44 per cent.? A.—It comes to roughly about 44 per cent.

Q.—So that even in the case of that company there is some 56 per cent. that get no benefit taking it in that way, from any of the profits of the company at all? A.—That is right.

(Memo of number surviving dividend paying period filed as Exhibit 146.)

Q.—Then I will put in also some computations that have been made to show the difference between what you estimated the profits on policies would be and what the policyholders actually received. (Exhibit 147.) That is the difference between the estimates and the actual results. This gives different plans of insurance and different ages. Apparently in the 10 year period, which is the first group on this Exhibit, your estimates were pretty well realized. For instance on a 10 year policy, whole life plan, your estimate was \$53.80 and your actual was about \$56. That is on policies issued back in 1886 the estimate was realized? A.—It looks like that.

Q.—And in the same way with the other policies in that 10 year period, there seems to be nothing to comment on? A.—No payments on it, I suppose. No payments at those ages.

Q.—Where those lines are drawn that means that we have been supplied with no actual results for those periods? A.—Yes, likely because there were no results.

Q.—There were no results that you

could give us and that is indicated in that way. Then taking the 15 year period, the result seems to be a little different, the life policy at that period, age 25, you estimated in your rate book for 1886 that the profit for the policyholder would be \$162.40? A.—Yes.

Q.—But he actually received only \$100.20? A.—Yes.

Q.—At age 35 it was \$216.20 estimated, but he received only \$135? A.—Yes.

Q.—These are all large differences? A.—Material.

Q.—Material differences. You estimated at age 45 \$338 and the policyholder received only \$210. You estimated \$613 at age 55 but there are no actual results for that period. Then on 15 payment policies and 15 year endowment policies the difference was about the same. At age 25, 15 year endowment, the estimate was \$451? A.—Yes.

Q.—Whereas the policyholder actually received \$287.69? A.—Yes.

Q.—Then the 28 year period seems to be that the policyholder received about 50 per cent. of the average of what he expected to receive when he took out the policy? A.—I did not know that there was quite that reduction. About 40 per cent. reduction in that.

Q.—Look at some of these items. On a life policy at the 20 year period at age 25, the estimate in your rate book for 1886 was \$331.55, whereas he actually received for the policy only \$163. At age 35 the estimate for the 20 year Life Policy was \$481.95 and he actually received \$226? A.—I guess on the average that probably is correct.

Q.—It is even worse is it not? A.—In some cases it may be.

Q.—The estimate for 45 was \$790.45 and he received about \$320. These are all less than half you see. Then the 20 Payment Life, the estimate for age 25 was \$483.95 and he only got \$220? A.—Yes.

Q.—At age 35 the estimate was \$640.35 and he got \$280? A.—Yes.

Q.—At age 45 the estimate was \$957.15 and he only got \$360? A.—Yes.

Q.—The 20 year endowment seems to be about the same. Now take the rate book of 1892, which was 6 years later. There are no results apparently on Life. On 10 Payment policies with the 10 year policy the estimate was \$88, the actual result \$60. At age 35 estimate \$108.95, actual result

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\$76. The other terms there are no figures for. The 10 year endowment policies with a 10 year distribution, \$177, estimated, and \$110 actually received at age 25. And the others seem to be about the same as that. Now those were estimates that were put out in your rate books of 1886 and 1892? A.—Yes.

Q.—Now here are the estimates in your rate book of 1905? A.—That is the rate book constructed in 1903.

Q.—And issued in 1905? A.—No, issued in 1903. It is at present in use.

Q.—I have it here "rate book of 1905" but you say that was prepared in 1903? A.—Yes.

Q.—Apparently your estimate there is nearer. Take the Life, 15 Year Period, at age 25, the estimate is \$84 and the actual result you have got there at \$80, but that actual result is an actual result on a policy issued 15 years ago? A.—Yes.

Q.—So that the interest received on the monies paid in by the policyholder would be higher than the present rate considerably? A.—Yes, but the premium is higher now.

Q.—You think that would be counteracted by the premium? A.—Well, you take the case of the Mutual Life or New York Life, they are estimating at present, I think, take the endowments, they are estimating about 52 per cent. of the premiums payable in the period and that is actually higher than they are at present paying under maturing policies. Personally I do not favor the use of estimates at all. I should recommend abandoning them, in the interests of the Company.

Q.—At age 25, 15 Payment Life, your estimate \$93, but on a policy issued 15 years age the actual result was \$100, so it seems to be in there? A.—Yes.

Q.—In some cases it is under and in others over, but where the actual results are shown by this table, they would be actual results on policies of the age indicated and period used? A.—Yes.

(Statement showing estimates of surplus and actual dividend results now filed as Exhibit 147.)

Q.—Now, Mr. Kilgour, how do you explain the difference between these estimates and the actual results, because in many of the policies they seem to be only one half of what was anticipated? A.—Well, of course I cannot say how they made up the estimates originally. I have only a very hazy memory on that point, but I

think they may have taken too generous a view of future commissions. Undoubtedly the facts as disclosed by the actual payments would point to that. No doubt the rate of interest had a very marked effect on the discrepancy between the original estimates and actual payments.

Q.—But have not the premiums increased, as you said? A.—Oh, but you are speaking strictly in regard to policies issued 20 years ago. You must not confuse the two.

Q.—Taking those policies you say there is a difference in the rate of interest which would have a material effect? A.—A very material effect.

Q.—That would not account for 50 per cent. would it? A.—I cannot say exactly what would account for it.

Q.—I suppose it is fair to say the rosiest expectation was presented to the policyholders? A.—Well, I don't know who made out the estimates.

Q.—From your knowledge would you not say that that seems to be the case? A.—I have seen a letter sent Mr. McCabe by the late Sheppard Homans, and in that letter it was stated that he regarded the estimates at that time as conservative and well within the mark, and he was regarded at that time as one of the leading actuaries of America, so it would be hardly fair to accuse them of taking too bright a view of the future.

Q.—Then you agree that keeping an actual account for these deferred dividend policies would be desirable? A.—Desirable for office purposes.

Q.—Do you favour these long periods like 20 years, for the distribution of profits? A.—You mean what is generally known as the deferred?

Q.—Yes? A.—I favor it personally.

Q.—You do? A.—Yes.

Q.—You think there is no reason for compelling a distribution of profits every year, or at least every five years? A.—No, on the contrary, I think it is one of the most satisfactory conditions in the country, for the simple reason that it levels the benefits to the policyholders. The men that die early get a benefit out of proportion to the premiums paid in. I think the men who survive the period ought to get some benefit.

Q.—The early claim that accrues prevents payment of premiums, is that what you mean? A.—Undoubtedly.

Q.—And there is a saving, a benefit to that policy in that way, and you think it would not be advisable to com-

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pel distribution of profits at the expiration of every year or at the expiration of every 5 years at the outside? A.—I see no reason why that should be done.

Q.—You were here yesterday were you, Mr. Kilgour? A.—I was here part of yesterday.

Q.—Did you hear the correspondence read regarding the Douglas policy? A. I don't remember it. I must have been out at that time, however I am familiar with the correspondence.

Q.—There the surplus earned was \$114 on a policy of \$1,000? A.—Yes.

Q.—That was a 20 year endowment policy, was it? A.—Yes, I think so.

Q.—At age 31, I think? A.—Yes.

Q.—The profits on that policy were \$114? A.—Yes.

Q.—Now, here in this Statement that you have handed in, on a policy 20 year endowment at age 34, which is the nearest age we can get to it, you show the profits to be \$403 A.—I suppose taking into account the age it would probably be slightly less than \$400.

Q.—Do you think then that the \$114 profits on the Douglas policy as compared with \$403 at age 34 on the same plan, that there is some wide discrepancy there? A.—Well, I don't think if I had been there to calculate the surplus, that the same discrepancy would have been shown.

Q.—Why? A.—I probably would have taken a different view in regard to the profits distributed quinquennially.

Q.—Which of these profits are you now criticising? The \$403 or the \$114? A.—I am not criticising either of them but I think probably I would have taken a different view.

JUDGE MAC TAVISH: In both cases? A.—No, only in one case, in the case of the quinquennial division.

MR. TILLEY: Do you say that that is on the face of it not quite fair as between these two policies? A.—Well, I have not the slightest idea how those figures were made out.

Q.—It would appear to a layman to be unfair. Now is the layman's view subject to criticism? That \$114 on this policy of Douglas' at age 31 and \$403 at age 34 on the same plan of insurance? A.—I would not criticize him for kicking.

Q.—How do you explain that, is it because different policy holders were treated differently? A.—No, I think they probably had an entirely different view of the policyholders entering the

deferred distribution class and the policyholders entering the quinquennial class. As I said before I do not know how they calculated the surplus, but it is quite apparent to me that however they did that they did not take into consideration the saving of mortality in that class. Now there is a slight basis for that, because it is known that the mortality is very much more favorable in the deferred distribution class than it is in ordinary policies issued with periods of distribution of 5 years and annually.

Q.—That is it would be the class of person that would be more apt to choose the 20 year period? A.—The man with the better life gets the longer period.

Q.—He would say, I will take a chance on the 20 year period? A.—He thinks it better.

Q.—The mortality there is better? A.—Yes, that is the general experience of all companies.

Q.—Then this method of computing these profits was not quite fair? A.—Oh, I won't say that.

Q.—Well, no complaints to make for kicking anyway? A.—I don't blame them for objecting, but I suppose they cannot understand the difference, I cannot understand it, but I have no doubt Mr. McCabe understood the difference.

Q.—That does not seem to help the policyholder much? A.—Well, if Mr. McCabe was here he probably could explain it.

JUDGE MAC TAVISH: You cannot explain it? A.—No, sir, I cannot. I do not know how they calculated it. I was not there.

Q.—Have you endeavoured to ascertain? A.—I have done my best, but there are no records, as I pointed out before, in this special case.

Q.—You have investigated the Douglas case and are unable to say why the profits are so small in his case as compared with the profits in other cases? A.—The only record we have is of the actual profits paid.

MR. TILLEY: The only record you have is what was actually paid, what was actually allowed? A.—Yes.

Q.—And so far as your records go it was entirely by rule of thumb, an arbitrary distribution of the profits? A.—Oh, I would not say that.

Q.—Does not that seem to be so? You have made a study of it and you cannot make head or tail of it? A.—I have not made a point of making a study of those.

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Q.—You have given it a good deal of thought and you cannot explain why these policyholders were treated in the way they were? A.—Well, they undoubtedly took a different view of the case than I would have taken.

Q.—Or else made an arbitrary division.

JUDGE MAC TAVISH: What do you mean by "they?" A.—I mean Mr. McCabe and Mr. Standon.

Q.—That is the company took a different view from the view you would have taken? A.—Well, the person responsible for the distribution.

Q.—The \$403 case, is that an actual case or an estimate?

MR. TILLEY: These are actual results. In 1905, but the age was 34 and Douglas was 31. That was the only difference between the two cases? A.—As I understand it. As I said before the reduction would be slightly under \$400 for age 31.

Q.—Mr. Paterson asks me to ask you whether this statement which is part of the Exhibit, I think, headed quinquennial system, helps you? A.—Well, it is my full and complete statement.

Q.—As to those profits? A.—Yes.

Q.—But neither the \$114 to Douglas nor the \$403 at age 34 is based on a quinquennial distribution, it is based on a 20 year and falling due in the same year, everything is the same except the age? A.—The Douglas ex-quinquennial.—You must not confuse the two. They are an entirely different system. One is on the quinquennial system and the other on the 20 year deferred system.

JUDGE MAC TAVISH: Then the policies were entirely different? A.—Yes, entirely different, that is as regards periods of distribution.

Q.—Were the premiums on the same basis? A.—I presume so. 20 year endowment premiums.

MR. TILLEY: I think this is the fact, that in the Douglas policy there was nothing in the policy to show which way he wanted his profits? A.—Of course that is a matter of contract.

Q.—That is what you remember of it, nothing in his application to show that? A.—Well, he did not state that he wanted the semi tontine.

Q.—Then he got four 5-year distributions, did he not? A.—Yes.

Q.—Four distributions for the 5-year periods? A.—Yes.

Q.—And the total of those four distributions amounted to \$114? A.—Yes.

Q.—And I have shown you that on the 20 year endowment policy the profit would be \$403? A.—Slightly less.

Q.—\$403 for 34 years. For 31 years how much less? A.—Something under \$400.

Q.—If we say about \$400 would that be fair? A.—About \$400.

Q.—Shall we say not less than \$395? A.—Well, about \$395 would probably be nearer.

Q.—And that difference as between those policies you cannot explain? A.—No.

Q.—Except that you say that although Douglas's application did not show how he wanted his profits, when he wanted his profits to be distributed it was done on the quinquennial basis four times? A.—I believe it was the custom of the company then where it was not explicitly stated that they required the semi tontine or what we call, the deferred distribution, that they put them all on the ordinary system.

JUDGE MAC TAVISH: Can you tell us, if Douglas had not had the benefit of the quinquennial distribution, would his profits have been greater? A.—If he had entered the other class?

Q.—No, if his policy did not call for the quinquennial distribution of profits, would his profits have been greater than they were? A.—They would have been greater if it had been on the deferred distribution 20 year policy. If he had entered the other class he would have shared as the others in that class shared. He would have received something less than \$400.

Q.—It would have made that difference in his case? A.—Well, that is what they paid last year.

MR. TILLEY: In those two methods of computing it, what difference would you reasonably expect to find? A.—Well, you can probably get a fair index to that by the amount that has been distributed in the last period. I think if I am not mistaken it is \$34.

Q.—Then if Douglas had been used fairly—I do not want to use that word objectionably—but according to your own method of computing, how much less than the \$400 would he have got by taking it quinquennially? A.—I have never calculated that and I would not care to make an estimate.

Q.—But you think this difference is too great? A.—Not entirely.

Q.—Were the profits paid every five years to Douglas? A.—It was a bonus to be added to the policy. He had the privilege of choosing but he chose

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instead of the cash an addition to his policy.

Q.—He would not get that much if he took it in cash? A.—Slightly less.

Q.—So that the amount he got, \$114, would not have been even that sum paid to him if he had taken it in cash each five years as it accrued? A.—Slightly less than that.

JUDGE MAC TAVISH: If Douglas had died within the 20 year period he would have received only the face of his policy? A.—In addition to the bonus additions.

Q.—He would have had the bonus additions? A.—Yes.

Q.—But if the other person had died within the 20 years he would receive no addition? A.—No addition.

Q.—The face of his policy only? A.—Yes.

MR. TILLEY: Where is there anything in the application that Douglas made to show that he chose a five year distribution? A.—You see in regard to these particular classes which refer to the deferred distribution here there is no mention at all made; they ask, do you accept this, and there is simply a cross put against it.

Q.—Here is number 32. "Do you desire the policy to be issued on the tontine and investment plan, whereby the surplus is only participated in at the expiration of the tontine period as stated in or on the policy now applied for?" There is nothing to indicate his desire there? A.—A dash. That would indicate that if anything he did not want it on that period.

JUDGE MAC TAVISH: He did not answer that question? A.—Simply a cross or a stroke put opposite to it.

MR. TILLEY: There is a stroke on this copy. No. 33 "Is the tontine period to be for 10, 15 or 20 years?" There is a stroke opposite that? A.—Yes.

Q.—34. "Do you in consideration of the agreement contained in the investment period now applied for agree that no allowance shall be made for such policy should it lapse during the said tontine period and that you expressly waive or relinquish all right or claim to any other surrender or paid up value than that provided for in the said policy." There is a dash opposite that. This is the form of policy; show me anything there that indicates that his profits are going to be divided every five years? A.—There is the ordinary endowment.

Q.—That is right down in the bottom left hand corner is "Ord. End." that stands for "Ordinary Endow-

ment" and that is to indicate to him that he is to get his profits every 5 years by way of bonus addition? A.—That is the distinction that was made between the ordinary class and the Deferred Distribution class.

Q.—That is everything in that policy that indicates to him the manner in which his profits are going to be divided or when he is going to get them? A.—As I understand it.

Q.—What is there to show that Douglas elected to take bonus additions instead of cash at the end of each five years? A.—Well, the certificates of the bonus additions were sent to him and accepted.

Q.—Is there anything in the application or policy to show Douglas whether he was entitled to his cash at the end of five years or entitled to a bonus addition on his policy? A.—I don't think there is anything in that.

Q.—Was that left entirely open then? A.—I don't know. Of course it is a matter of contract and I am not perfectly familiar with that question.

Q.—It does not seem to be very much a matter of contract, because there seems to be no contract about it at all? A.—Well, he omits at any rate to choose the 20 year period.

Q.—All you know is that at the end of 5 years a notice was sent to him that a certain bonus addition was added? A.—And that was accepted.

Q.—How accepted? He didn't do anything? A.—It was not returned.

Q.—He had nothing to return except a mere notice? A.—It was a notice of bonus addition.

Q.—It was a notice that a bonus addition was added to his policy and he did nothing on receipt of that and so you treated it in that way? A.—I don't know whether there is anything at the office to show whether there was a letter of acceptance or not. I cannot say that.

Q.—Probably you would look that up, would you? A.—I will find that for you.

Q.—We will put in a copy of the application and we would like to have that verified by the original, and also a specimen of the policy which should be verified also.

(These documents are now filed as part of Exhibit 139.) Mr. Paterson asks me to ask you whether his election, when notified of the first bonus addition, would not bind him as to all

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the other divisions of profits? A.—Yes.

Q.—Why? A.—Because, if I am not mistaken, that is a provision in the bonus certificate.

Q.—You have not a form of the bonus certificate here? A.—I don't know whether that was sent in or not.

Q.—Do you mean then that at the time he received the notice of the bonus addition it was open to Douglas to take either cash or a bonus addition? A.—Yes.

Q.—It was at his option? A.—Yes.

Q.—Was there anything in the policy to show how much he would get if he took cash? A.—Oh no, there is nothing in the policy; the policy never guarantees surplus.

Q.—Was there anything in the notice to him? A.—Undoubtedly.

Q.—It would show what he could take in cash or as a bonus addition? A.—Yes.

Q.—Will you make a note to get those. Then you have supplied the Commission with a Statement of all the lapsed policies in 1905? A.—Yes.

(Exhibit 148.)

Q.—All the policies that lapsed in that year? A.—Yes.

Q.—Can you say how many policies lapsed? A.—I do not think the question required a summation of this and I do not think it has been made. I think last year there were about 2 million policies lapsed.

Q.—2 million dollars of policies, do not say 2 million policies? A.—Yes, of course, I mean 2 million dollars of policies.

Q.—2 million dollars of policies lapsed in the year 1905? A.—Yes.

Q.—Does that include policies not taken or were those policies upon which something had been paid? A.—Oh no, that includes lapses only.

Q.—So that 2 million dollars of policies lapsed in 1905 on all of which something had been paid by the assured? A.—Yes.

Q.—How many of those had been issued in 1904? A.—I cannot tell. I have not made an analysis of that.

Q.—Does not this statement show? A.—No, it is not asked for.

Q.—I am not asking as to amount, but take the number of policies, this statement shows every case where there is an amount shown in the renewal column, that means that more than one premium was paid? A.—Yes.

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Q.—In the other cases just the first premium paid? A.—Yes.

Q.—We will put this document in. I understand that on this first page there are about 76 policies and only 10 of them were in existence more than that one year? A.—That is what lapsed of that year.

Q.—And they seem to run about that way? A.—I should fancy so.

Q.—Not more than one in 10 would be in existence over the year? A.—Of those that lapsed in the first year.

Q.—The great volume of the policies that lapsed, lapse at the end of the first year? A.—Yes.

Q.—Does not that indicate a rather strenuous run for business? A.—It indicates that after the first year they are fairly persistent.

Q.—And it indicates that for the first year they are not fairly persistent? A.—Not necessarily, because that is the lapse ratio of those that lapse alone. You would have to consider those that lapse and those that entered the class.

Q.—But does it not follow that taking the first year they are not persistent? A.—Not necessarily, because that is only in respect to lapsed policies.

Q.—Any way, 2 million dollars of policies lapsing at the end of the first year, does not that indicate that a great many persons had been got into insurance who were not prepared to remain in? A.—Well, it indicates that I suppose.

Q.—Can you say how many policies were not taken in your company in 1905? A.—I think about 8 hundred thousand dollars.

Q.—What do you mean by "not taken" policy? A.—A policy that was issued and nothing paid on it.

Q.—Would the policy get into the hands of the insured? A.—Not necessarily. It might not be accepted at all, or a note be given and the note not paid at all.

Q.—Are those policies shown in your returns? A.—Yes.

Q.—As being insurance in force at the end of the year? A.—No, it depends entirely, for instance if a note has been given and the currency of the note does not expire before the end of the year, then that will be amongst the taken policies, but if the note expires previously that would be deducted.

Q.—Now the Memo. I have here is that there are 336 policies amounting to \$570.350 not taken and there were

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784 amounting to \$1,096,250 lapsed at the end of the first year? A.—Yes.

Q.—There were 4,267 policies issued in 1904? A.—Oh, there must be more than that.

Q.—Look at the Government return for 1904. “4,267 policies?” A.—Yes, that is right.

Q.—Amounting to \$6,337,733? A.—That is right.

Q.—And of those is it right to say that 336 were not taken? A.—Not exactly. Probably that would be approximately correct.

Q.—And 784 lapsed in 1905? A.—Well, you see those lapses and not taken, some may apply to 1904 and some to 1905.

Q.—No, I understand that this is the report on the business in 1904 that we have here from you? A.—Have you a statement of that that I might see.

Q.—Yes, here is 1904 and I can give you the 1905 one. The policies reported in any year might some of them be policies of the previous year and some of that year? A.—Yes.

Q.—But probably the average would be about that because in the 1904 return the policies not taken were 490? A.—I think that would be correct.

Q.—And I have taken 336, so that would be on the low side? A.—I suppose so.

Q.—That would indicate that there were 9 per cent. of the policies not taken and 16 per cent. of them lapsed within a year, being one quarter of all the policies you issued? A.—Yes.

Q.—Do you say that is a fair percentage from your knowledge of your business, that 25 per cent. of the policies written this year would either lapse or not be taken? A.—I should say that is fair.

Q.—Does not that seem a large percentage? A.—Well, I suppose I can only consider it large or small as compared with other companies.

Q.—Compare it that way? A.—I do not think it is.

Q.—You think it is not large as compared with other Canadian companies? A.—I cannot be specific with regard to that because I do not make a point of comparing the company with other companies.

Q.—You were the one that proffered to do it. You do not want to compare it in that regard or you cannot, which? A.—I cannot.

Q.—It seems to be indicative of getting persons to sign applications for policies who have no considered intention of becoming insured? A.—

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Well, of course a great many of them might have had the intention of becoming insured for one year.

Q.—It would be rather expensive for one year except for the rebates? A.—I presume so.

Q.—That would indicate heavy rebating? A.—Not necessarily. It might indicate a rebating just as in the case of other companies and in conjunction with other companies.

Q.—I suppose in this profit and loss statement you handed in, you have got under the head of profit—that is only filling out the form, I am not saying you put it as profit, but filling up the form properly—first the reserve released by surrender and lapse \$220,000 odd, and less surrender values allowed \$150,000 odd, leaving a profit on that item of \$90,208.16. That, however, I suppose is not really a profit? A.—Oh, no.

Q.—It is an item that goes to reduce this item of \$170,000 odd loss on the first year business? A.—Yes, exactly.

Q.—You get back about half in these payments? A.—Yes.

Q.—That is to say that there is not a profit to the company on the lapsing of its policies? A.—No.

Q.—It is really an expense? A.—Well, I don't know that you can call it either an expense or a profit, either a loss or a profit.

Q.—What you say in your return is that undoubtedly the predominant proportion occurs after the payment of only one premium and it should be mentioned that policies so lapsing contribute actually no profit and in some cases an actual loss is experienced? A.—Yes.

Q.—And whatever is shown in the statement of 1905 as profit by lapsed policies only goes in reduction of the loss on the first year's business? A.—Exactly.

Q.—Mr. Paterson asks me to ask you whether the practice of rebating has any connection with these not taken policies that we have been speaking of? A.—I don't know that it has.

Q.—You have said already that it had a good deal to do with the lapsing of policies? A.—I should say so. It probably has something to do with the other too.

Q.—I was not able to understand how it has anything to do with the not taken policies. If it has I would be glad to know it? A.—Well, I cannot say. Probably the agent refused to give him the rebate.

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Q.—And he would refuse then to take the policy? A.—Yes.

Q.—Then to take another instance; suppose there is a discussion as to the kind of policy and the policy is written out and the applicant then doesn't want that kind of policy and another is written, that would not appear as a not taken policy, but would just be cancelled and a new policy issued. Would that get into your returns? A.—That would go through as a changed policy.

Q.—And not a not taken policy? A.—No.

Q.—If you issue to the insured a policy of any kind you would not call it a not taken policy? A.—If it is not taken; but if it is changed it is put through as a changed policy.

Q.—I suppose that the not taken policy really results from the agent probably over inducing the person he is trying to insure and persuading him temporarily but not permanently? A.—I can give you an experience of mine three years ago.

Q.—If it is a special one we do not want it? A.—It is very much to the point.

Q.—It is of general application? A.—Yes. I was out in the west 2 or 3 years ago for my health, and in order to gain some experience in field work I went around the country soliciting insurance. I went to one farmhouse after I had driven out several miles and I received there applications for three sons in the family, men ranging from 30 to 40. I got them duly examined, got the policies and then when I went to take them the father thought they were probably too young to take on insurance and refused to allow them. That was a case in point where the policies were not taken.

Q.—It was not a hitch there by reason of refusing to give the rebate? A.—Oh no, I do not rebate.

(Statement of lapses now filed as Exhibit 148.)

Q.—You issue a policy on what is called the commercial plan do you not? A.—We did. We issue one now, but it is entirely different from the old commercial policy.

Q.—Which is this, the new or the old? A.—That policy was issued prior to 1897.

Q.—Then that is what you would call the old commercial policy? A.—Yes, for purposes of distinction.

Q.—Do you issue any of that policy now? A.—No.

Q.—Then that would be the sort of commercial policy that would be issued 15 years ago? A.—Yes.

Q.—Is this statement that you have put in here in this Exhibit as to profits true as to the new or old commercial plan or both? A.—Only the old.

Q.—It says "commercial plan policyholders whose policies are in force at the expiration of 15 years from date of issue are returned one-fifth of all the net premiums paid, exclusive of the first?" A.—Yes.

Q.—Then the clause in the policy is, "one-fifth of each such regular premium, less the said expense charge, will be carried in the surplus as a special contingent fund to be used for the payment of death losses only in the case of unusual mortality from epidemics or otherwise?" A.—Yes.

Q.—"After this policy shall have been in force for 15 years and at every regular quinquennial dividend period of the Company thereafter it will participate in such accumulated special contingent fund remaining in surplus and also in any other surplus of said net premiums disposable and apportionable to this policy under the provision of the Act of incorporation?" A.—Yes.

Q.—Under that provision in the policy would the insured get dividends from accumulations caused by lapses? A.—I don't know that he would. He has not at any rate.

Q.—Does not that policy give him that? A.—It says any further surplus of said net premiums. It does not refer to lapses though.

Q.—Under this clause is he not entitled to his share of that special accumulated contingent fund? A.—Well, it has never been held that way.

Q.—Is not that the way it reads? That is a fund accruing from the commercial policy? A.—Yes.

Q.—It makes a special contingent fund derived from this balance does it not? A.—Yes.

Q.—And under this clause the insured is entitled to participate in that special accumulated contingent fund is he not? A.—I would not care to express an opinion on that point.

Q.—Leaving it to us to read the policy, will you tell me whether he is allowed to take the benefit of that? A.—So far we have returned one-fifth of the net premiums, and nothing more, and it is my opinion that the man has been extremely generously used who has had that one-fifth.

Q.—The man has been paid on-fifth of his premiums but he has been given no participation in that special con-

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tingent fund, has he? A.—Nothing else has been paid except the one-fifth.

Q.—Then he has not participated in the accumulated special contingent fund, has he? A.—He has not participated in anything except what has been paid.

Q.—No part of the accumulation has been paid? A.—No.

Q.—He has not been given the benefit of this clause in his policy, because the previous clause gives him the share in his premium?

MR. PATERSON: Is not that a question of law? Contract?

MR. TILLEY: You say he has got nothing but one-fifth of his net premiums back? A.—That is what I said.

MR. LANGMUIR: Was there actually an accumulated fund in respect of that class of policy? A.—We have a fund specially set aside there as a contingent fund.

Q.—And the policyholder has not participated in that fund? A.—There has been no participation except in the actual premiums.

MR. TILLEY: Then take this complaint of a man named Alexander Macdonald of North Bay. He says, "Over 15 years ago I was induced to take a policy for \$5,000 in what was called The Mercantile Plan, on which I was to pay \$84 a year, assuring me that the policy would never go higher than \$105 a year. It was also promised that in all the lapsed policies I would have a share. This has proven false as every five years since I was obliged to pay more and now I am paying \$145 and if I live 10 years more it will cost me about \$400. I am now 60 years of age and I have struggled hard to keep it up and it is hard on me. I was in Toronto three years ago. I tried to raise some money on it but was told by Mr. McCabe that it was no good to anyone except to my friends after my death. If my policy and receipts would be of any benefit to you I will send them on at once. I am only a poor man and I am kept poor. I would be very grateful to you if you could drop me a few lines on the matter." That is a letter received to-day regarding this policy on the commercial plan. Is that right that no loan will be made on it? A.—Oh of course the policy has no loan value at all. At any rate it would never have a loan value on account of the surplus.

Q.—And that special contingent fund has never been used to give any benefit to the persons that are in the class? A.—Of course you will understand that it is at the discretion

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of the company to what extent they will participate.

Q.—There is nothing here about discretion at all. "If this policy shall have been in force for 15 years, at every quinquennial period of the Company it will participate in such contingent fund remaining in surplus."

JUDGE MAC TAVISH: Would you furnish us with a statement of the payments made on this particular policy of Macdonald of North Bay? A.—Yes sir. As I said before, that policy has been an extremely generous one. The policyholders under that class have been treated too well.

MR. TILLEY: The policyholder is told sometimes, "Well, this is a matter of contract and if you do not apply for your profits you do not get them." This is a matter of contract too; now we want to know whether the insured is getting what he contracted for? The question is not whether it is favorable to him or not, it is what he contracted for? A.—Well, it has not been my duty to apply that clause.

(Commercial Plan Policy and letter of Alex. Macdonald filed as exhibit 149.)

Q.—Have you made any change recently in the surrender values allowed to policyholders? A.—What do you particularly refer to there?

Q.—Have you made any different provision as to guaranteed surrender value or not recently? A.—Not in respect of recent issue of policies. There has been a slight alteration in regard to the old surrender values.

Q.—But no alteration as to recent policies? A.—Oh no.

Q.—Does this statement show your cash surrender value? A.—Yes, it shows the old values.

Q.—Is the whole of it the same? A.—I presume that comes under "1" there. No, I think it is mixed there, some refer to one and some to the other.

Q.—I thought that was the new manner of dealing with the old policies? A.—Oh no.

Q.—That is the old manner of dealing with them? A.—Yes.

Q.—Let me read this letter and see if you agree with what he says. A letter from Christopher M. Forbes. (Exhibit 150.) "I hold a twenty payment life policy semi-Tontine, No. 7,394, with the North American Life Assurance Company, on which I have paid 17 annual premiums of \$25.65 or say \$436.05. In the spring of last

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year, having paid to the company up to that time 16 payments or \$410.40, I wrote asking them to name the then cash surrender value of my policy. They replied as per the enclosed letter, that the surrender value of my policy was \$180.99. In view of the investigation that is now going on I think it is advisable to send you this information as the amount they offer appears to me out of all proportion to the amount paid in, and may lead the commission into a channel of inquiry with good results to policyholders. My policy is for \$1,000." Then here is a statement, "re Forbes policy. Under the old $4\frac{1}{2}$ per cent. policies the rule in regard to surrender value has been that the surrender value is equal to the reserve multiplied by eight thousand, plus the reserve divided by two thousand? A.—That is right. It would increase over half, half is the least.

Q.—That is to say in the first year it would be one third the surrender value? A.—It would be certainly more than half. If the reserve were 10 per cent. it would be 55 per cent.

Q.—In this case the policy was 16 years in force, the amount was \$1,000, the plan 20 Payment Life, age 25, the reserve, 16 year, is \$282.85. That gave the surrender value of \$180.99, according to this letter of Forbes. Now is that the way you compute the reserve now? A.—Well, if Mr. Forbes were to apply this year—that is only an application, it is not a cash surrender.

Q.—What do you mean by that? A.—He applied for the amount but the policy was not actually surrendered.

Q.—What difference does that make? If he had surrendered it that is what he would have got? A.—Yes.

Q.—That does not make it fair or unfair, the fact that he did not take it? A.—He would be more fortunate to apply now.

Q.—Why? A.—I can say in regard to the surrender values, I think that rule was instituted in the first place by Mr. McCabe. I don't know where he got it exactly. You can see how it works out. The lowest percentage would be 50 per cent. and in the case of an endowment where the reserve gradually increases to a thousand at the end of the period, the cash surrender value will ultimately be the face of the policy or the whole reserve. It is more or less arbitrary.

Q.—That is just a rule of thumb again? A.—I don't know what it

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was. I don't know where he got the rule.

JUDGE MacTAVISH: What is the rule now? A.—Well we are giving a percentage. I might say in that connection there have been very few surrenders after—

MR. TILLEY: What would he get now? A.—80 per cent.

Q.—How much money, let us have it in figures.

MR. PATERSON: Are you quite clear on that? Mr. Campbell has something here? A.—I have not got the exact percentages.

MR. TILLEY: Let Mr. Campbell give it to us then.

(Receives a memo.) That is what I was informed.

Q.—Then has the old rule been changed for old policies? A.—No, the point I wanted to bring out there, that is under contemplation at the present time, the changing of the old rule.

Q.—That is not the point you did bring out? A.—I did not put it in the exact language I intended to.

Q.—If this man Forbes applied now would he be treated on any different basis? A.—I am inclined to think he would be now.

Q.—There is no rule yet laid down by the company which would entitle him to be treated on a different basis? A.—We are preparing a set of tables to apply to those old values. We have not had a case yet on which to apply them.

Q.—So you have not yet treated any of these old policyholders on a different basis? This is not fair to Forbes? A.—Well, it is the same rule that has always applied.

Q.—Was the rule fair during those years? A.—Well, it is a matter of contract.

Q.—What does his contract say he is entitled to? A.—The contract states, according to the rules of the company.

Q.—Then new rules have been laid down for new policies, and what percentage would they get? A.—I think you have them there, have you not?

Q.—Then we come back to this as being a new rule? A.—Oh no, that is the old rule. That is how that rule works out in regard to particular policies and plans. No, I am mistaken there, that is the new rate entirely.

Q.—This is the new rate which gives the total reserve at the end of 20 years and certain ages, or at all ages, doesn't it? A.—This refers to the Manual issued in 1900. That is not

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the present though. We issued a manual subsequently, in 1903, and the reserves were increased.

Q.—Are they increased on this statement? A.—The surrender values are increased.

Q.—Point out where that is? A.—You have them here.

Q.—Limited Payment Life. That all seems to be part of the same? A.—No, this refers to the surrender values under the rate book and this refers to the same rate book. Here under "C" you will see a reference to the rate book in 1903.

Q.—So that the first page does not give the surrender value on the basis of the new rate book? A.—No.

Q.—But the 2nd page gives the surrender values on the basis of the last rate book you issued? A.—Yes.

Q.—Which was in 1903? A.—Yes.

Q.—And neither of these show the old method under which Forbes comes? A.—No.

Q.—Forbes is a time prior to either of these? A.—Yes.

Q.—I will put in the Forbes letter and statement as (Exhibit 150.) Then the statement of surrender values since in use. (Exhibit 151.) Tell me what Forbes would get on your present method of computing surrender values? A.—If the present method applied it runs up to the full reserve in the 10th year.

Q.—I would like to know in dollars and cents? A.—He would get \$282.-85.

Q.—Instead of \$180.99? A.—Yes.

Q.—When the rule was changed for these surrender values why was it not made applicable to all these policyholders? A.—Because we were simply getting out a new rate book for a new state of affairs.

Q.—You propose now to change it as to these old policyholders? A.—It is under contemplation.

Q.—Has it been decided to do it yet? A.—No, it has not. It has been decided to do it, but the actual rates have not been adopted yet.

Q.—Can you say why that was not done when the change was made in the other? A.—I cannot say. Mr. McCabe was managing the company at that time.

Q.—And you did not know what reasons prompted him for what he did? A.—No.

Q.—He did not take you into his confidence? A.—Not at all.

Q.—And this method of giving surrender value does not seem to be based on any reasoning you can discover? A.—As regards surrender values I do

not think they are based on any scientific method whatever. I think they are largely competitive. They are originally based on something scientific, but as between companies they are largely competitive.

Q.—And you cannot tell how Mr. McCabe arrived at that method? A.—I fancy that that is a rule that applied to Old Country policies.

Q.—It goes back that far, does it? A.—I guess so. I don't think it was originated by him.

Q.—If Forbes had a loan on his policy which got into default and he applied for the surrender value, would he even get as much as this letter offered him? A.—Undoubtedly.

Q.—Is there not something that makes his position different where there has been a loan? I think probably that was referred to by Mr. Shepley. Does the North American Life lend money on real estate, taking policies of insurance on the life of the mortgagor? A.—You are dealing now with a different phase of the question?

Q.—Certainly? A.—I don't think as a matter of fact—I know in fact that they never insist upon insurance being taken.

Q.—But is that a practice that is adopted by the North American Life? A.—The North American Life will take insurance on any man insurable.

Q.—And lend him money on his real estate at the same time? A.—I don't know anything about the real estate part of the business. I don't suppose they would loan money unless they had good security.

Q.—Do you tell me you cannot answer my question frankly, as I have asked it? If you cannot I will go on. A.—I have no knowledge of the investment part of the business.

Q.—If you say you don't know whether the North American Life lend money and insure the mortgagor all in the same transaction, then I will take your answer? A.—No, they don't.

Q.—That is not a transaction the North American Life enters into? A.—Not a joint transaction at all.

Q.—It has not been done in any case? A.—Not that I know of. As I say, we frequently have insurance on a mortgagor though.

Q.—Taken at the same time as the money is loaned? A.—I don't know when. I am not familiar with a case.

Q.—You know that some of the mortgagors to the company are per-

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sons insured by the company? A.—That would naturally happen.

Q.—But you say you don't know whether the insurance was taken out at the same time as the mortgage? A.—It is never a joint transaction.

Q.—You are able to say that? A.—Yes.

Q.—You seem very positive about it now? A.—Well, I say it to the best of my knowledge.

Q.—A question was asked Mr. Goldman and probably it would be well that I should ask you, as to the proportion or percentage of the policies written in any particular year that lapsed in the immediately succeeding year. I suppose you cannot add anything to what has been said about that? A.—I think not. I think I have said all that I can on that point.

MR. LANGMUIR: Mr. Kilgour was going on to say in respect of the 2 millions that lapsed last year, 1905, about how much of it had been written during the previous year. I think you were going to say something on that point? A.—No, the point I wished to bring out was that you could not compare them. For instance take the not taken policies of 1905, they would not necessarily be of the issue of 1904.

MR. TILLEY: But they are not in the lapsed policies? A.—No, but the same might apply to the lapsed.

Q.—The lapsed policies I was talking about were the policies issued in 1904 that lapsed in 1905? A.—Well, of course some policies might be carried by note for a while and extend over the actual year. On the average though that would follow, averaging up from year to year.

Q.—What I read at that time was that there were 784 policies of \$1,096,250 issued in 1904 that lapsed in 1905, and 336 policies of 1904 that were not taken. Do you deal with the payment of policies when a question arises as to whether the company is liable or not? A.—No.

Q.—You are not consulted about it? A.—No.

Q.—Do you remember the Macdonald policy? A.—No.

Q.—In that case it appears that a note had been sent by mail? A.—I have no knowledge of that case at all. It was dealt with by Mr. Goldman was it not?

Q.—No, it was not discussed with him. You cannot give any information about it? A.—No.

Q.—You have not seen these papers before? A.—No.

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Q.—Apparently Macdonald wrote asking about the payment of his note, which he thought was coming due, and wrote a second letter. There seems to be no reply to him. Then after his death the position seems to be taken that his policy had lapsed because the premium had not been paid. You don't know anything about that? A.—I don't remember the facts. I can get an exact statement in regard to that policy if you wish.

Q.—This seems to be the correspondence, but that would only be in line with the evidence that was given, I suppose, that if a policy lapses and no claim is made for the surrender value, that the policyholder loses it? A.—Yes.

Q.—In this case a settlement was made at \$1,282.30, but Macdonald would have been entitled to a paid up policy for \$3,500 by merely electing to have it? A.—Of course you must not confuse a paid up policy with actual cash.

Q.—Mr. Taylor would like to have this transaction brought out so we will take up the whole transaction and then read the certificate of character at the end. Macdonald apparently on August 5th wrote to your company in regard to the premium on policy No. 4440 on his life. He says, "I was notified in due time by R. B. Hungerford and I signed a note a day in March last, the date I cannot say for I was in San Francisco at the time and mailed it from there. So will you please look it up and let me know for it must soon be due now. I want to continue my policy." That is signed Charles Macdonald, Astoria. There was no uncertain sound about Macdonald's letter, was there? A.—No.

Q.—There seems to be no reply to that letter in this file but Mr. Taylor says there is a mark on this letter which shows that the letter was answered. Then on August 12th he writes, "If I remember correct I stated my note was signed in March last. It should have been in May last for my letter was forwarded from Astoria to San Francisco." As before, "Charles Macdonald. That letter does not seem to have been replied to, at least this ditto mark is not on it. Then on Aug. 10th the Company wrote to Hungerford, "re Policy 4,440 Macdonald, not in force. We are in receipt of a letter from Mr. Charles Macdonald of Astoria in regard to this policy, which ceased to be in force. Kindly look

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into the matter carefully and let us know if you have any correspondence with him or received any note as he states." That states that the policy was not then in force, but the card that you produced has on it "lapsed December, 1901," although the letter was written on Aug. 10th. Do you know why that was not treated as lapsed on that card at any rate? A.—Well, of course the actual book-keeping entry might be made a long while after the policy is not in force.

Q.—Then this entry treating this as a lapsed policy was not put through until Dec., 1901, on your books? A.—No. That is right, although it automatically lapsed by non-payment of the premium, in April, 1901, and was written off in December.

Q.—Then on 14th Dec., 1901, there is this letter, "my brother Charles Macdonald, holding policy 4,440 in your company died in Astoria, Oregon, on 2nd Dec., 1901, in St. Mary's Hospital, Astoria. Kindly forward certificates of proofs of death to be filled out as policy calls for and oblige. Alex. Macdonald." You cannot say from this entry whether it was before or after that 14th Dec., or before or after the 21st of Dec., when you received that letter, when these entries were made on the card saying that the policy had lapsed and treating it as lapsed in your books? A.—No, I don't think that can be done.

Q.—It is just written "lapsed Dec., 1901?" A.—Yes.

Q.—Then further correspondence passed, the Company writing "We are in receipt of your favour of the 14th inst. advising us of the death of Charles Macdonald. We find this policy lapsed some months ago owing to non-payment of the premium, which came due on 20th April last and therefore was not in force at death." That is written on Dec. 23rd. Then other letters were written about it as between yourselves and the agent and finally a claim was made on the company by Messrs. Gibbons and Harper, acting on behalf of the estate and the upshot of the correspondence with the solicitors was that this man was paid \$1,282.30 on that policy. It was a \$5,000 policy, 20 Payment Life. There is a clause in the policy dealing with its lapse, allowing a grace of one month for the payment of premiums and providing for reinstatement on certain conditions if the policy becomes void? A.—It is an old policy of course.

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Q.—It gives him no absolute paid up policy? A.—No.

Q.—And if he had been entitled to a paid up policy on that premium not being paid, he would have received a great deal more? A.—You mean if it had been automatic, yes. He would not have received a great deal more though.

Q.—Then there is a letter from Gibbons and Harper to the North American Life, "Allow me to congratulate you on the liberal treatment you have extended to him on the life of his late brother." "Although you were not obliged legally to make any payment thereunder yet you have generously paid the beneficiary the sum of \$1,282, being the full reserve held by you under the codicil." Would you care to say under that state of facts that the beneficiary was not entitled to anything? A.—Oh, undoubtedly he was not entitled to anything.

Q.—Although he writes himself in August inquiring about the note that was coming due? A.—Yes.

Q.—Has the note ever been found, can Mr. Taylor tell us? A.—No, no trace of it.

(File re Macdonald policy, correspondence and policy filed as Exhibit 152.)

Q.—Then without asking any questions at present, I will put in the forms used by this company to prove death, some 89 questions being asked to establish the death.

(Filed as Exhibit 153.)

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., May 23rd, 1906.

Examination of Mr. Kilgour continued:

MR. HELLMUTH: Q.—Were you here yesterday afternoon when a comparison was made between an all life without-profit policy at the age of 40 and a twenty semi-tontine policy, the same age? A.—I recall something of that, I do not exactly.

Q.—You probably are aware, or can verify, that the premium on the ordinary life at the age of 40 is \$27.05? A.—Yes.

Q.—And that on the twenty year semi-tontine deferred dividend it is \$32.60? A.—Yes, you are comparing ordinary life non-participating with twenty payment life participating?

Q.—Yes, with a deferred period is it not, that is they only get any profit if they are in the twenty years? A.—Yes.

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Q.—\$5.55 being the difference in the premium between \$27.05 and \$32.60? A.—Yes.

Q.—And that \$5.55 is paid entirely for the purpose of getting profits, it is not paid for insurance? A.—It is paid more than for profits, it is paid to provide for future reserve, for instance in the payment life it is fully paid up.

Q.—\$27.05 provides for reserves in the ordinary life? A.—Yes, but after the 25 years are up he has to continue to pay the \$27.

Q.—Quite so, so that what I say is correct, that the \$5.55 is purely for the purpose of giving profits? A.—I think you are probably confused, you are treating the ordinary life non-participating with the payment, 20 payment life participating.

Q.—It is not twenty payment life? A.—I think you mentioned that.

Q.—It is not twenty payment life, it is ordinary life, but with a semi-tontine period at the end of 20 years? A.—Yes.

Q.—That is \$32.60? A.—Yes.

Q.—That is the premium for that class of insurance—let us get this clear—\$5.55 in that case is paid purely for profits? A.—Yes.

Q.—Because the \$27.05 is enough to take care of the insurance and the reserves? A.—It should be adequate, it is provided for that.

Q.—And that also provides for the loading expenses? A.—Yes.

Q.—Have you got any calculation there of what profits at the end of the 20 years you will pay to the man who pays that additional \$5.55? A.—We have an estimate of \$281.

Q.—That is to say, is that in cash \$281? A.—Yes.

Q.—But he still will have to go on and pay the \$27.05 after that? A.—Yes.

Q.—And can you tell me roughly how many, or what percentage will be in existence of those insured at the end of the 20 years on the basis of a forty year man at the time of paying the first premium? A.—About 70 per cent. would probably survive, that is mortality alone.

Q.—That is mortality alone, but take the lapses and other matters that enter into it? A.—Put it down at 40 per cent.

Q.—I notice that in this (exhibit 144), even with the man ten years younger, aged 30, there are only surviving somewhere between 43 and 44 per cent? A.—Yes.

Q.—And of course with a man of 40 there would be a less number? A.—Yes, I put it at 40 roughly.

Q.—So that as Mr. Goldman said yesterday, 60 per cent. reaped no benefit from that \$5.55? A.—Of course some of those, very few of those who pay many \$5.55—

Q.—But of that 60 per cent. none of them reap any benefit from the \$5.55? A.—Not in respect of the particular amounts they paid in.

Q.—Not in respect of the \$5.55 they have paid in in addition to the \$27.05? A.—No.

Q.—And therefore the whole of that \$5.55 of 60 per cent. should go to the 40 per cent. who survive? A.—Yes, of course in respect of the amount paid in.

Q.—Whatever of the \$5.55 is paid in by the 60 per cent. who have gone out should go for the benefit of the 40 per cent? A.—Yes, that is right.

Q.—So that the 40 per cent. should get back at least \$5.55 compounded yearly at $3\frac{1}{2}$ per cent. in order to have returned the additional money they have paid? A.—Yes.

Q.—Then they should get in addition to that such proportion of the \$5.55 as has been paid in by the 60 per cent. who have lapsed? A.—Yes.

Q.—With compound interest upon that amount at at least $3\frac{1}{2}$ per cent. for the respective periods it has been with the company? A.—With the rate of interest earned.

Q.—Do they do anything like that? A.—Yes, that exhibit shows exactly.

Q.—No, that exhibit is not of course on the forty year basis, but that exhibit shows only \$185.64, does it not? A.—Yes.

Q.—And the surplus? A.—I will see what we have here in the book. Of course that accounts for the difference in age.

Q.—Your amount for forty is how much? A.—About \$281.

Q.—Do you say that that \$281 covers more than the whole of the additional \$5.55 and the \$5.55's that have been paid by the 60 per cent. with compound interest at $3\frac{1}{2}$ per cent? A.—Roughly speaking it covers that.

Q.—Exactly that or just about that? A.—That is not the way the contribution fund is made up.

Q.—I want to know whether it would be just exactly about that amount? A.—It would depend entirely upon the expenses that would be assessed on that class.

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Q.—It would not run over that any way? A.—Yes, it might, including the saving in mortality.

Q.—It might include the saving in mortality and it might include I suppose you will say the advantage of the gain in interest over $3\frac{1}{2}$ per cent? A.—Yes, but mind you, in that we do not consider that \$5.55 as a gain; the way we get the amount, the difference between loading and assessment expenses, we do not take that into consideration at all; as a matter of fact that \$5.55 might not be the amount we consider, because our expense also might be higher than the actual loading on the non-participating plan.

Q.—But you do say and you publish that \$27.05 for a man of the age of forty is enough to keep him insured to pay his net premium and to pay the expense for loading? A.—We regard that as adequate.

Q.—It is not entirely inadequate? A.—No, we would not publish it if it were.

Q.—What is the ratio of expense to premium income of the North American Life, I mean the first and second year, and all? A.—Somewhere between 25 and 30 per cent.

Q.—I think you are below the mark; I have had a calculation made of the ratio from 1895 up to 1904? A.—Of course I gave it for last year, 1905.

Q.—1904 was 32.5? A.—I cannot remember the exact figure; my impression was 1905 was about 29 per cent.

Q.—You said between 25 and 30 per cent; you have never been down below 29.8, which is practically 30? A.—Yes, we expected to run down to 25.

Q.—In the past your percentage has averaged over 30 per cent? A.—Yes.

Q.—So that on that basis you would require a loading of 30 per cent. for expenses? A.—Oh no.

Q.—If you are not going to save on mortality, which you have taken into account, or on the difference in interest if you do not save on either of those two you require a thirty per cent., is not that so? A.—That same argument would apply to a new company.

Q.—Would not that be so? A.—No.

Q.—Why not? A.—Take the case of a new company that has only been in existence two years, it might have an expense ratio of 75 per cent., and it would not be fair to say it would be necessary to charge 75 per cent. on a net rate.

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Q.—You have been in existence how many years? A.—About 25 years.

Q.—And your expense ratio has not got beyond 30 per cent. practically up to date? A.—You can put it that way, that is about it.

Q.—So that if your expense ratio has been for those 25 years either above or below 30 per cent. you certainly should calculate during those years at all events on an expense ratio of 30 per cent? A.—No, I think I can explain that point to you very easily. It happened this way, that—the great expense is due to the first year; those policies which are insured in the first year either persist or go off, if they were to persist they would make a greater proportion of old business than is actually the case now, and would materially reduce the expense ratio; if they have gone off they have gone off and we do not have to provide for them in the future.

Q.—Your expense ratio for first year business last year was 467 per cent? A.—No.

Q.—That was for 1904? A.—It was not the expense ratio at all, that was with reference to the loading.

Q.—To the new business? A. It was not with reference to premiums at all.

Q.—It was with reference to loading of the premiums? A.—Yes, but not in reference to the premiums.

Q.—In reference to the loading of the premiums? A.—Yes, but not in reference to premiums.

Q.—It was only by reason of your old business of costing you so much that your ratio of expense was brought down to 29.8 from 32.5? A.—You are confusing the two; that 29.8 applies to premium income; 467 applies to the loading, and the loading as you know is about one-fifth of the premium income.

Q.—What was your ratio of expense to premium income in new business for 1904? A.—I cannot tell you in regard to 1904. In regard to 1905 it is about 100 per cent.

Q.—You can tell me easily by that book? A.—No, I cannot.

Q.—What was your total new business in 1904 (refers to blue-book)? A.—\$6,300,000.

Q.—What were your total first year expenses? A.—I do not know.

Q.—Would that be accurate, \$220,000? A.—Yes, I guess that is accurate.

Q.—What percentage would that be? A.—But this is the premium amount, this is not premium income.

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Q.—Cannot you tell me what your premium income is? A.—No.

Q.—We have not it here in record; have you no record of premium income in that year? A.—We have it for 1905 but not for 1904.

Q.—I will take it for 1905? A.—I think it is given in the exhibit to the Commissioner.

Q.—Is not that net premium income in the blue book? A.—Yes, that is \$214,938.41 for 1904.

Q.—And the expenses on new business for that year were \$220,195? A.—Yes.

Q.—That is over 100 per cent.? A.—Very slightly over.

Q.—And that percentage is reduced by reason of the lower cost on the renewal business? A.—Yes.

Q.—So that it is a fact that the total ratio is somewhere in the neighborhood of 32.5 for that year or 29.8 for this year? A.—Take those figures.

Q.—As an actuary what percentage do you consider it necessary to load the net premium with so as to cover expenses, non-participating or participating—give me both? A.—Participating are at present based on 20 per cent. on the net premium plus \$3, and non-participating is at present based on an American table, it is about 15 per cent. on the American table.

Q.—That is 15 per cent. of the net premium? A.—Yes.

Q.—Nothing justifies a lower loading than 15 per cent. because it is nearly always exceeded, the loading? A.—Seldom exceeds 15 per cent.

Q.—It has? A.—I have never known the loading to exceed 15 per cent. on the non-participating policy.

Q.—You do load for 15 per cent.? A.—Yes.

Q.—Is that including first year business of non-participating as well as renewals? A.—That includes all the business.

Q.—15 per cent. is safe, you think? A.—I think so.

Q.—Would you take it any lower? A.—I think that is regarded as about right at the present time.

Q.—Will you tell me why you only load this 40 year man with ten per cent. in your own rates? A.—That is in regard to the Canadian table.

Q.—You only load that man with ten per cent., the net premium, for the man of 40 years, as Mr. Goldman when he was examined said, at 3½ per cent., and I am taking all these now sure on 3½ per cent., is \$24.65, and ten per cent. of that will be \$2.46, would you make the total premium

\$27.11; you only make it \$27.05—why? A.—That is the exact rate computed on the American 3½ per cent. basis with a 15 per cent. loading.

Q.—\$24.65 is the net premium? A.—Is that the net American premium?

Q.—I don't know, that is the Hm. table? A.—It is not based on the Hm. tables.

Q.—So that you put it on the net American premium? A.—Yes.

Q.—And that is then a more favorable rate of mortality? A.—In respect to that particular age.

Q.—You will find that much the same with the other ages? A.—I do not think the discrepancy would be the same in all ages; however you can take it at ten per cent. if you wish to.

Q.—What do you take as the percentage of loading for the participating policy? A.—20 per cent. and \$3.

Q.—Why does the participating policy require a higher loading than the non-participating? A.—It provides for profits.

Q.—But outside of profits why does it require any heavier loading? A.—I think the case is simply this way, when we issue a non-participating policy we load it with a rate that we regard as adequate to provide both for the liability in respect of mortality and in regard to expenses; but at the same time there is the possibility that the company will lose, it takes a chance; our expenses may exceed that and our experience may not warrant that, but we consider we are operating under favorable conditions when we load it and when we issue a premium of that rate; at the same time we take the ground when we issue a participating policy that there is going to be absolutely no doubt about it, we load sufficiently so that there is no question about the company being at least equal and in a position to pay reserves at the end of the time, and possibly a surplus.

Q.—When you take a man's ordinary life policy you certainly load it and charge a sufficient premium to guarantee you can pay that policy? A.—We expect to pay that policy.

Q.—But you take enough to do it? A.—No, we might make a loss.

Q.—You may take it out of participating? A.—We might make a loss, it is possible.

Q.—And it would then have to make its burden upon the participating policy? A.—It is treating profit and loss, and it has always been a profit.

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Q.—You make a distinction between the participating and non-participating in favor of the non-participating, you make the participating take the chances of having to bear the burden of the non-participating? A.—We do not expect it ever will.

Q.—But you do make it take that chance? A.—Yes, or probably capital stock.

Q.—You make the distinction in favor of the non-participating policy-holder who pays the lower rate proportionately than the participating? A.—Yes.

Q.—You never put that feature to the public that he pays a lower rate? A.—I think generally the public is aware of the rate.

Q.—I mean that the non-participating is entitled to rely upon the participating policy to make good any loss in investment or any other way? A.—He knows it is absolutely guaranteed whether he gets it from the participating policy or whether he gets it from the capital stock.

Q.—As a matter of actual fact, you have always done that from the outset of the company, you have given the non-participating man a lower rate proportionately than the participating? A.—Yes.

Q.—And that is a feature of all these companies as far as you know? A.—Yes, as far as I know.

Q.—That is the man who is in the position of getting most certainly for his money is the non-participating policy-holder? A.—He is guaranteed it.

Q.—Do you make up the loading for the future premiums, is that part of your duty? A.—They are made up at the present time.

Q.—Is there a distinction drawn between the loading for one kind of participating policy and another? A.—A slight distinction, it is generally the same for life policies; it is slightly lower for an endowment policy.

Q.—Are you able to say how much of the load that a participating policy has cast upon it, that is upon the premium as applies to expense and to profits—can you divide that in any way? A.—No, I cannot divide it.

Q.—Can you divide the premium of \$32.60 into the net reserve, the loading for expenses, and the loading for profits? A.—No.

Q.—Have you ever tried to do that? A.—No.

Q.—But you do say that the whole of the difference between the \$2,705 and the \$32.60, or the sum of \$5.55 is not all for profits, it is not an entire

additional amount for profits? A.—Well, it provides for profits and also for possible contingent expenses.

Q.—That is, it does provide for profits and expenses by whatever name you call them of some kind? A.—Yes.

Q.—Could you give me the practical result of two or three policies at various ages and how they have worked out? A.—They are on exhibit at the present time, take the twenty payment life.

Q.—That is at the age of 30? A.—I have not got it at the age of 40.

Q.—What I want to get at is this, can you tell me what percentage has been returned to that individual of the moneys he has paid in over and above the cost of straight life and of the moneys that he would be entitled to on the 60 per cent. lapse or death? A.—I have not made a calculation.

Q.—Could it be calculated? A.—It could be calculated.

Q.—Could you furnish me with that? A.—I could furnish you with that.

Q.—Perhaps you would not mind furnishing it on a couple of different plans? A.—Yes, on any number.

MR. TILLEY: I was asking you whether there was any person else in the office who could explain the method of calculation adopted by Mr. McCabe in his lifetime and after his death until you took charge, you said there was no person who would know more about it than you? A.—I do not think so

Q.—What is Mr. Campbell's position in the office? A.—He is associated with me and in charge of that department.

Q.—Who is the senior, you or Mr. Campbell? A.—I am the senior.

Q.—How long have you been there as senior to Mr. Campbell? A.—I do not think there has ever been any distinction. I have the title of assistant actuary.

Q.—And what title has he? A.—He has not any title.

Q.—He is in the actuarial department? A.—Yes.

Q.—Doing work under you? A.—Oh, no, there is a general division of the work in the department; I have attention particularly of the mathematical work.

Q.—Was Mr. Campbell more conversant with the method of calculation adopted by Mr. McCabe? A.—No, I do not think he was; I am sure of it.

Q.—You are sure he cannot tell us anything more about this than you

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have told us this morning? A.—I have told you all he knows about it.

Q.—You are confident about it? A.—Yes.

MR. SHEPLEY: I desire to have it put upon the records that I have satisfied myself that there is nothing in the books of Messrs. Osborne and Francis which will assist us beyond a matter which I am about to state. A statement of it will clear up what Mr. Goldman was not clear about yesterday. When the bonds which had been bought on the joint account, the Windsor, Sandwich and Amherstburg Railway, were taken out of the joint account and taken over to the company as an investment, they were taken over at a figure which demonstrated a profit, and half that profit was paid by cheque to Osborne & Francis, being entitled to that profit on the joint account. The other half of course does not appear anywhere in the books, but the half that was paid by cheque appears as part of the price paid for the bonds by the insurance company. It is fair to say that in the interim sales in small quantities after the purchase at 90 were at a higher figure; they went up as high as 94 and a fraction, and they were at that figure. The last sale, and within a few days before the company took over, was practically at 91½, because they gave away half the profits. It was 93. Then it is perhaps also fair to say that similar bonds were subsequently bought and are still held by the company at higher prices, 97 and 98. I want to recall Mr. Goldman in respect of a specific matter.

LEOPOLD GOLDMAN, re-called by

MR. SHEPLEY: You had an application in December, 1901, from a gentleman named Birch for insurance? A.—We had.

Q.—And you have produced, you tell me, all the papers in your file bearing upon the subject you have been able to find? A.—Yes.

Q.—They bear internal evidence of there having been other documents, but those you have searched for? A.—Yes, and I cannot find them.

Q.—We will take them in their order. The first is a letter from your Kingston agency, your agent there being Mr. W. J. Fair? A.—Yes.

Q.—And he wrote on the 16th December, 1901, to the company as follows: "Mr. Birch has a policy maturing in the New York Life, and he must decide to-morrow which option he would select," etc. (Reads letter.) (Also reads memo. on the other side of

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letter, "The premium will be paid in cash. Fair.") The enclosure mentioned there is the application? A.—Yes.

Q.—And this is the original application? A.—Yes.

Q.—Do you at all recollect the contents of the telegram to which this letter refers? A.—Our reply.

Q.—No, the contents of the telegram: This letter says, "I also wired you about another matter"? A.—No, I could not remember sir, but I have had them try to search through the old telegraph books to see if it can be found.

Q.—Did you find any trace of any reply of yours? A.—No, I have had it looked for, but unfortunately those old telegraph books it is not to be found.

Q.—Let us see if I understand this letter; you understood Mr. Birch was offered a paid-up policy for \$4,440 in the New York Life as consideration for a policy in that company which was then maturing? A.—That is what the letter states, yes.

Q.—And you understood, I suppose, not being unwise about these matters, that if a paid-up policy were issued in your company by way of substitution for that it would involve his taking the cash out of the New York Life? A.—Yes, the cash value in the New York Life. I have looked the fact up so that I can tell you frankly everything about it. The cash value in the New York Life was \$2,700.

Q.—That is Mr. Birch could have got \$2,700 in cash from the New York Life or a paid-up policy for \$4,440? A.—Exactly.

Q.—This seems to be an application for an ordinary life policy, whole life without profit, for \$4,500? A.—That is what it is, and an annual premium of \$311.20.

Q.—That would mean, would it not, that upon the face of it it was an application upon which premiums, if accepted, would be required to be paid at that rate during the natural term of the man's life? A.—That is the contract.

Q.—That of course would strike you at once, would it not, as being, assuming the two companies were equally solvent, grossly inferior in point of advantage for Mr. Birch to what he could get from the New York Life? A.—I do not know that I considered the matter at all. I was simply Secretary of the company at the time the transactions came into the office.

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Q.—If you had thought of it, or if you look at it now and think about it, that would be so, would it not?
A.—On that point I have not any opinion to give, because if you will see my correspondence on the subject you will see what I have stated, it covers that point.

Q.—I am coming to that in a moment, but I want you first, if you will, to give me your opinion about this: a paid-up policy for \$4,400 in the New York Life, assuming the companies to be equally solvent, is very much better than a whole life policy at this premium for \$4,500, is it not, putting the two side by side? A.—I should prefer it.

Q.—And so would anybody? A.—So far as I am concerned I should prefer it.

Q.—I won't press you further than that; you, having this letter, wrote a reply which you have preserved, or have you? A.—I do not think there was any reply, the policy was issued.

Q.—You issued a policy without any reply; did you wire the acceptance of it? A.—Yes.

Q.—Did you find that wire? A.—No, but we are sure to have done so.

Q.—You are sure to have wired the acceptance of this application? A.—Yes.

Q.—Then apparently a letter was written to you by Mr. Fair on the 17th December, 1901, and that is the letter you produce? A.—Yes.

Q.—“Thanks for your wire just received re Birch”—that was the wire accepting, of course? A.—Yes.

Q.—“My reason for telegraphing you yesterday for the amount that \$2,700 would buy,” etc. (Reads down to the words “in our Manual was \$3,833”)—that would be paid-up insurance? A.—Yes.

Q.—That is all you could give for \$2,700? A.—Yes, according to our table of rates.

Q.—(Continues reading letter) “There being such a difference between the two” (Reads down to the words “reason for asking a question of that kind by wire”)—do you know what that refers to? A.—No.

Q.—(Continues reading letter) “However I will endeavor to arrange,” etc. (Reads down to the words “as I intend to”)—tell me please what meaning you would take from that letter in respect of the transactions between Birch and Fair? A.—I would take it that Mr. Fair was inducing him to hold off asking the cash surrender value until he got

the thing settled or taking a paid-up policy, in other words he was using his influence to induce Mr. Birch to do nothing until he could arrange something. That is what I take it from that.

Q.—And was endeavoring to arrange so that for the single payment of the \$2,700, which was the surrender value of the other policy, he could get as much insurance in your company as Birch could get in the New York Life, as much paid-up insurance? A.—Evidently.

Q.—You replied to that letter on the 19th December, and this is a copy of it, with which you furnished me: “In reply to your favor of the 17th instant regarding amount of paid up insurance,” etc. (Reads the whole of the letter); you yourself were doing the corresponding. That letter was written of course with just the knowledge which you have frankly told me you had? A.—Yes.

Q.—The policy was written and sent? A.—Yes.

Q.—And is there a record here as to when it went out? A.—It would go on the 17th December, 1901? A.—That one was on the day you got the letter? A.—That was the day we got the application with the letter.

Q.—The first letter? A.—17th December, 1901.

Q.—And the policy was what the application states? A.—Yes.

Q.—It requires the payment of this premium annually during the man's life, and upon his death would have called upon you to pay \$4,500 without profits? A.—That is the contract.

Q.—How soon were you made aware that what had happened was that Fair had got the whole \$2,700 from Birch, and that Birch was under the impression he had a paid-up policy for \$4,500? A.—I had never understood that Mr. Birch, believed he had a paid-up policy, but I had seen Mr. Fair; he corresponded with me on the matter this year, and he has been to the office and I have seen him, and he told me certain facts.

Q.—Was your conversation with him before or after the subsequent correspondence which you have given me? A.—It was after that correspondence.

Q.—The first letter you have given me is the letter from yourself to Fair, of the 24th March of this year:

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"Replying to your favor of the 22nd instant referring to this policy," etc. (Reads letter in full.) What about the letter of the 22nd instant from Fair to your company, of which this letter speaks? A.—We have been looking over the files and they have not found it.

Q.—You will perhaps not consider your search exhausted? A.—Oh no sir.

Q.—And you will produce that if it can be produced? A.—Yes.

Q.—Can you remember what was in it? A.—My only recollection is he simply wrote and asked what it would cost to convert that into a paid-up policy.

Q.—Did that convey any idea to your mind as to the original transaction, did you commence to suspect at all? A.—I did not give it any thought.

Q.—You just made a reply that \$2,413.90 would have to be paid in full? A.—Would you allow me to see that letter?

Q.—Yes. (Hands letter)? A.—I do not suppose I saw the original letter from Mr. Fair. It would go to the actuarial department, and they would likely dictate that letter for me.

Q.—Dictate it in the actuarial department and you would sign it? A.—Yes, it would come before me.

Q.—I see that Fair replies to you from New York on the 28th March, and the letter is personally addressed to you: "Dear Mr. Goldman"—do you know he had come to go to New York? A.—Yes, he was down there for three months to take charge of our agency.

Q.—"Dear Mr. Goldman: Re Birch policy number 32918." "Surely you are not going to ask me to pay up some \$2,400 in addition to what I have already paid? I would sustain a loss in the transaction of about \$1,700"—that at all events would wake you up to the situation, would it not? A.—You proceed and I will tell you whatever you want to know.

Q.—Did you upon reading the letter become alive to the fact that it was this gentleman Fair who had been paying the premiums? A.—It so impressed me then.

Q.—(Continues reading letter) "Now, you know it was my zeal and anxiety to get the business," etc. (Reads balance of letter). What is the reference here to the Commercial plan? A.—That is a class of policy on a very cheap rate in which under

the contract a man has the right to change at a certain time by paying the difference of premium to any other plan.

Q.—That would not be applicable to a case like this at all? A.—No sir, you will see my reply there.

Q.—Your reply is of the 30th March, 1906: "Dear Mr. Fair"—this I suppose you wrote yourself? A.—That I dictated myself.

Q.—"Your favor of the 28th received," (Reads whole of letter)—that is the end of the correspondence? A.—Yes.

Q.—You have no letters directly from Mr. Birch? A.—No, never had a word from him.

Q.—The premiums have always been regularly paid? A.—Yes.

Q.—Remitted to you by Mr. Fair? A.—Remitted in his report.

Q.—And he has continued in charge there so that the premiums had come through him? A.—Exactly, come through that agency.

Q.—How long afterwards was it you saw Mr. Fair? A.—I could not say exactly, but it was shortly afterwards, on his return from New York he came to the office and I asked him the particulars about it.

Q.—Just give us the conversation, tell us what he told you? A.—He told me that he had received from Mr. Birch the \$2,700, that he had entered into an undertaking with Mr. Birch in conjunction with some others by way of a bond agreeing to maintain that policy in force for Mr. Birch. That is about the sum and substance of what he told me.

Q.—What was this about a bond? A.—That he in conjunction with some others had given Mr. Birch a bond binding themselves to pay the premiums on the policies.

Q.—Did he tell you who the others were? A.—He mentioned one, I think a brother of his, and then there was some one else.

Q.—Did he say when the bond was given with reference to the original insurance? A.—No, he did not, but I should think it would be at the time he received the money.

Q.—He did not say so? A.—No, I would assume that.

Q.—Did he speak to you of Birch having received the ordinary notices to pay and having come to see him about them? A.—He mentioned that as the result of this correspondence of Mr. Birch having come to see him and

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demanding a paid-up policy in our company.

Q.—That is after Mr. Birch had been written to for premiums or a premium? A.—I do not know that.

Q.—At all events Mr. Birch had come to him, Mr. Birch being then in possession of the policy, had come to him and demanded a paid-up policy? A.—Mr. Birch had been in possession of the policy for some years with the annual payments; he came to Mr. Fair, as I understood, this year, and demanded a paid-up policy.

Q.—Instead of the one he had? A.—Yes.

Q.—Did you gather he demanded that on the ground that that was always what he was supposed to have had? A.—No.

Q.—Did you gather it was at the time the bond was given? A.—No.

Q.—What did you say to this? A.—I told Mr. Fair they should arrange to have Mr. Birch apply for the paid-up policy, and that he should put up the amount of money, pay over to us the amount of the money called for it, so that Mr. Birch could have the paid-up policy.

Q.—Why did you advise him to do that? A.—I thought that was good advice.

Q.—I think so too; was it because Birch had always, as between him and Fair, been entitled to a paid-up policy for that \$2,700? A.—I did not give that point consideration.

Q.—You did not advise him without reflection, I suppose? A.—I would consider as between Fair and Mr. Birch they had entered into a mutual arrangement that it should be closed up.

Q.—You were telling us a moment ago that Birch had a bond with surety for the maintenance of this policy? A.—I have reference to Mr. Birch having a paid-up policy.

Q.—What I want to get at is this, did you or did you not conclude from what Fair said to you from his manner and from his whole conversation, that Birch had always been led to suppose he had a paid-up policy? A.—I should conclude as between Birch and Fair that Mr. Birch would assume that his policy was virtually a paid-up one.

Q.—I will accept that answer? A.—That is as between Fair and Birch not as between the company.

Q.—I suppose during all this transaction Fair was the agent of your company? A.—Yes.

Q.—Did you call upon him to hand over the spoils to you? A.—What spoils?

Q.—The \$2,700? A.—Certainly not, we did not know he had it.

Q.—Did you call upon him to refund to Birch—you knew then he had it? A.—Lately?

Q.—Yes? A.—Yes; I have told him to have the policy paid up.

Q.—That is at his own cost? A.—Yes, as my letter indicates what we will do.

Q.—Is Fair still your agent? A.—Yes.

Q.—Has he turned it into a paid-up policy? A.—Not yet.

Q.—You are not in communication with Birch at all? A.—Never had a communication with Mr. Birch at all, between Mr. Birch and the company.

Q.—And I do not want to press you for an ethical expression of opinion, but is that the sort of conduct in an agent of yours which you approve of? A.—It places me in rather an embarrassing position to reply to that; I may have views on the conduct of the business and some one may differ, but if Mr. Birch, who I understand is a wholesale merchant, a gentleman of mature years, chooses to enter into an arrangement with Mr. Fair or any other agent and we have no knowledge of it, I hardly think I can express an opinion upon that point.

Q.—Let us put it in the abstract; do you expect agents of yours, is that conduct which you would expect of them, that they shall collect a gross sum of money from persons they canvass, undertaking privately to see that for that they get paid-up insurance, and then intervene with an application for a different kind of insurance with you, paying the premiums out of the money so obtained? A.—You want to know whether I, as Manager of a company, approve of that kind of thing?

Q.—Yes? A.—I do not approve of it.

Q.—Fair is still in your employment? A.—Yes, he is still in our employment.

Q.—Then if you will let me have copies where there are originals of this correspondence I shall be obliged to you, and I will give you what you have given to me for that purpose, and when it is completed it will be filed as exhibit 154. (Mr. Shepley hands application and correspondence to Mr. Goldman.)

MR. SHEPLEY: I may say, subject to some exigencies arising in the future, I close here the examination into the affairs of the North American Life.

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MR. HELLMUTH: I should like Mr. Kilgour to furnish the policy forms.

JUDGE MACTAVISH: Yes.

MR. SHEPLEY: That is part of the examination that has already taken place.

JUDGE MACTAVISH: He has promised to furnish a statement, which will be forthcoming.

NATIONAL LIFE ASSURANCE COMPANY.

MR. SHEPLEY: I propose now to take up the examination into the affairs of the National Life Assurance Company.

Mr. A. H. Marsh, K.C., appeared for the National Life Assurance Company.

ALBERT J. RALSTON, sworn, examined by

MR. SHEPLEY: Q.—You are and have been since the beginning with the National Life Assurance Company? A.—No, sir.

Q.—How long have you been there? A.—Since first April last, a year ago.

Q.—In what capacity have you been there? A.—As Managing Director of the company.

Q.—You have, I suppose, familiarized yourself with the history of the company and with its affairs? A.—Just in a general way, yes.

Q.—When was the company incorporated? A.—1899.

JUDGE MACTAVISH: Incorporated in 1897; commenced business in 1899.

MR. SHEPLEY: The Act of Incorporation is the Act of 1897, Chapter 78 of the Dominion. Mr. Henry S. Howland, Mr. Elias Rogers, and certain other gentlemen named, together with such persons as become members of and shareholders of the company, are constituted a body corporate under the name of the National Life Assurance Company of Canada, and that is the company we are speaking about? A.—Yes.

Q.—Your authorized capital stock is a million dollars? A.—Yes.

Q.—Divided into one hundred dollar shares? A.—Yes.

Q.—The persons named in the Act are the provisional directors? A.—Yes.

Q.—Then there is a provision requiring \$250,000 of the stock to be subscribed, and ten per cent. of that to be paid into some chartered bank, that

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would be \$25,000 altogether to be paid into a bank. Then a meeting for organization may be called. Then there is a provision that every director shall hold in his own name for his own use 25 shares at least. Provision for calls, and the directors to be not less than seven, nor more than 25. Then a provision for an annual meeting. Then you have a provision for investment. Speaking generally, how does the provision made in your statute for investment agree with the provision in the general Act? A.—I am not familiar with it.

Q.—This is the provision as to distribution of profits, "The directors may from time to time set apart such portion of the net profits as they deem safe and proper," etc. (Reads down to the words "once in five years")—have you considered that clause at all? A.—No, sir.

Q.—You have not made any examination of that clause? A.—No.

Q.—And you have never discussed the meaning of the latter portion of the clause which provides, "That the portion of the profits to remain undivided," etc. (Reads down to the word "declared"). A.—We left that to the consulting actuary.

Q.—Who is your consulting actuary? A.—Mr. Stanton of New York.

Q.—You are not able to say upon what basis the distribution of profits have been computed? A.—We have not paid any profits yet.

Q.—Have you made any allocation of profits at all? A.—No, sir, none are due yet.

Q.—Participating policyholders seem to have the right to vote in person at meetings of the company? A.—I was not aware of that.

Q.—"And if the company so determine then all persons who are actual holders," etc. (Reads down to the words "each \$1,000 of his policy"; has the company ever entered into any such agreement with the holders of participating policies as that? A.—Not to my knowledge.

Q.—Among the answers given is one that the policyholders had never been given any voice in the control of the company? A.—Never, not to my knowledge.

Q.—There is a non-forfeiture clause in section 16 of the Act: "Whenever any holder of a policy other than a term," etc. (Reads to the words "premium thereon.") You have produced for us a statement of the shareholders composition of your company;

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in the first place, how much stock has been subscribed for? A.—One million.

Q.—Is it all subscribed for? A.—Yes, sir.

Q.—How much has been paid on account of it? A.—Twenty per cent.

Q.—The whole million is subscribed, and 20 per cent., or \$200,000, has been paid in? A.—Yes.

Q.—And that is the capital with which you have been doing business? A.—Yes.

Q.—Are you able to say without reference to the books, when the company was organized and commenced to do business? A.—Not off-hand, about six years ago.

Q.—That would be in 1900? A.—I think so.

Q.—Looking over your list of shareholders, there does not seem to be any preponderating holding of shares? A.—No, sir.

Q.—There are some large shareholders; Mr. Rogers seems to be the largest? A.—Yes.

Q.—\$162,000 is his holding of shares, upon which the 20 per cent. has been paid up, or \$32,400. I see yourself hold \$100,000 in trust? A.—Yes.

Q.—For whom is that held? A.—For myself.

Q.—Why in trust? A.—The money was secured by way of a loan. I had \$150,000 of the stock, \$100,000 of it I am holding in trust for a gentleman residing out of the country.

Q.—Who has advanced the money to take the stock up? A.—Yes.

Q.—You have \$51,700 of stock? A.—Paid for of my own.

Q.—You say the money in respect of which you were able, or by means of which you were able to purchase this large holding, was advanced by somebody outside the country? A.—So far as the \$100,000 is concerned: the other I paid for it myself.

Q.—I want to be sure if the fact be so, that it was not the company that advanced you the money? A.—No.

Q.—Or it was not advanced on behalf of the company? A.—No.

Q.—The company had nothing to do with it? A.—The company only received it, that is all.

Q.—I see Dr. Macdonald is a shareholder to a considerable amount? A.—Yes.

Q.—Is he connected with the company? A.—He is the medical director.

Q.—Mr. Sparling has a substantial amount also? A.—He is the Secretary.

Q.—Who is Mr. Stone who holds a considerable quantity of stock? A.—

He is the President of the Toronto General Lithographing Company.

Q.—You have also furnished us with a statement showing the movements in the stock? A.—Yes sir.

Q.—Comparatively it has been a stock which has not moved about much? A.—Very little.

Q.—On Mr. Howland's death there was some alteration in his holdings? A.—Yes.

Q.—That seems to be the principal alteration in the holding of stock during the whole history of the company? A.—Three or more transfers as far as I know.

Q.—Was your stock issued all at one time or has there been more than one issue? A.—Two issues.

Q.—When was the second issue made? A.—November last year.

Q.—And that you say was all taken up? A.—Yes.

Q.—And twenty per cent. called and paid? A.—Yes sir.

Q.—Then in respect of both these issues of stock was there any premium? A.—Yes.

Q.—What was it? A.—Twenty per cent. of the amount called, or five per cent. of the par value.

Q.—That is there was called up upon the stock in both issues twenty per cent. of the par plus a premium of five? A.—Yes.

Q.—And has that all been paid? A.—Yes.

Q.—Have the shareholders in your company been paid any dividends? A.—No.

Q.—They have not received any dividends? A.—Not yet.

Q.—Then we have to consider in the case of your company what we have not had yet, the career of a new company during the early years? A.—Yes sir.

Q.—Your annual meetings have been regularly held? A.—Yes sir.

Q.—And at each annual meeting you have presented a statement of affairs? A.—Yes.

Q.—Those have been preserved and you furnished us with copies of them? A.—Yes.

Q.—This I think would be the first annual statement, the statement for the period ending December 30th, 1899? A.—Yes.

Q.—The first item is receipts \$127,102.82? A.—Yes.

Q.—And the second item is disbursements \$26,960.33; and the balance, \$100,141.99 is denominated net ledger assets? A.—Yes.

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Q.—What were those receipts? A.—They are referred to here.

Q.—Those are the assets, where did the money come from? A.—The shareholders; I am not familiar with this myself; I have never even looked into that.

Q.—But the company has always followed that method and I assume you are familiar with the method? A.—Yes.

Q.—Speaking generally you can tell me what those receipts would be? A.—I fancy this would be premium on stock and the premium income.

Q.—It would not include anything paid on account of the stock itself, the twenty per cent.? A.—I could not answer for that, it strikes me it would be on account of the shares.

Q.—That would be premium income and the twenty per cent. and premium received on account of shares? A.—I think that statement will show the company were only in business about three months; I never saw it until this morning.

Q.—“For that period of the year 1899 during which we have been doing business” (Reads from statement, down to the words “extend over a period of four and a half months.”?) A.—That is right.

Q.—Then your ledger assets enter into the difference between disbursements and receipts, are set out as follows: Dominion of Canada bonds, \$50,686.77; loans on bonds and debentures \$35,000; cash in Bank and on hand, \$11,504.43; agents and other ledger balances secured \$1,227.89; office furniture and equipment \$1,722.75; totalling the balance struck between receipts and disbursements, \$100,141.99. There are two other items of assets added to that, outstanding and deferred premiums, less cost of collection; describe what that item means in insurance companies' balance sheets? A.—Those would be the premiums that are in course of collection.

Q.—Earned premium? A.—Yes, for insurance premium.

Q.—The other item is interest accrued, that would be interest accrued upon your securities? A.—Yes.

Q.—Your liabilities are the assurance reserve fund, that is calculated on the basis of three and a half per cent.? A.—Yes.

Q.—\$15,582.96; death claim which was paid the second day of the following year \$2,000, and amount due on account of medical fees, and rent, \$643.51; or a total of \$18,227.47; that leaves

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what you call a surplus of \$86,707.88? A.—Yes.

Q.—And you count also as surplus the uncalled capital stock \$364,815, and you call the total surplus security for policy-holders \$451,592.88, to which you add the assurance reserve fund—in what form was that? A.—That is this here.

Q.—Ought that to enter in it twice? A.—I would not think so.

Q.—That however, may be got at in this way, you have put it in under the liabilities in the first place, and—? A.—And take credit for it as an asset, because it is on hand for the policy-holders.

Q.—It appears to be taken into consideration twice, because this is surplus for policyholders, \$86,000, in which it already enters; I think that is probably an error? A.—I should call it an error, I am not responsible for that.

Q.—You seem to have issued insurance in 1899 to the extent of \$639,500, of which \$604,000 was in force on the last day of the year. A.—Yes. That is four and a half months.

Q.—There are some provisions in the report of the Board to the shareholders that perhaps it would be interesting to look at: “We must all, I am sure, be satisfied with the manner in which the funds of the company have been invested,” etc. (Reads to words “safer investments than these.”) There is a statement here as to the management of that day; how long did Mr. Matson whose name is mentioned here, continue to be managing director? A.—Until I succeeded him in April a year ago.

Q.—He has not any connection with the company now? A.—No.

Q.—“The secretary of the company, Mr. Sparling, has had over twenty years life insurance record”—is Mr. Sparling still there? A.—Yes, secretary.

Q.—Then you have given us your financial statement for the year 1900; that bring down the balance of net ledger assets from the preceding year? A.—Yes.

Q.—And there there is more distinction made in the nature of the receipts, premiums \$47,956.57, interest \$4,524.01; that would be interest on investments? A.—Yes.

Q.—And on account of capital stock \$5,849.70, or a total of receipts \$58,330.28, which added to the balance of the net ledger assets for the preceding years, makes a total of \$156,749.52? A.—Yes.

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Q.—I see your balance of net ledger assets was improved that year? A.—Yes.

Q.—After all the disbursements which are set out you have balance of net ledger assets to carry over to next year, \$102,689.50? A.—Yes.

Q.—Your assets and liabilities are set out? A.—Yes.

Q.—And your re-insurance reserve had risen to \$50,432.44, and you show a surplus of \$67,025.34. To that you add your subscribed capital stock which is uncalled? A.—\$382,800.

Q.—And also what is due on called stock, \$3,265.30? A.—Yes.

Q.—The same mistake does not seem to be repeated here as appeared in the preceding statement? A.—No.

Q.—I see your office furniture is taken in as net ledger assets with ten per cent. written off? A.—We followed the practice of writing ten per cent. off that.

Q.—Writing ten per cent. off that class of asset? A.—Yes.

Q.—Your statement for 1901 shows a slight improvement again in net ledger assets, does it? A.—Yes, it is now \$154,000.

Q.—You have improved your position in that respect? A.—\$50,000.

Q.—You can tell me of course with respect to your capital stock during the early years of an insurance company's career, what do you have to do with your capital stock? A.—Impairment.

Q.—You have to impair it in the securing of business? A.—Yes, that is the object of having a capital account.

Q.—Will the statement you have given us show whether that impairment is being recovered now? A.—Yes.

Q.—Have you turned the corner? A.—Yes sir.

Q.—I will refer now to that; this is a summary? A.—Yes.

Q.—Beginning with 1899 and ending with 1905? A.—Yes.

Q.—Your surplus at the end of 1899 was \$86,797.88? A.—Yes.

Q.—Then at the end of 1900 it was \$67,025.34? A.—Yes.

Q.—What was the reason of the falling off there? A.—The organization of the company I fancy.

Q.—And the putting out of your resources? A.—To get business.

Q.—Then in 1901 it is still further down, \$46,343? A.—Yes.

Q.—The same cause operating there? A.—No doubt.

Q.—1902, \$31,022.01? A.—Same cause.

Q.—1903, \$24,914.59, that was four and a half years? A.—Yes.

Q.—At the end of the next year you commence to show an improvement again, a restoration of your capital account? A.—1904.

Q.—At the end of 1904 that surplus has risen to \$34,971.75, and that at the end of 1905 you had made a still better showing, and your surplus had risen to \$170,508.75? A.—That is correct.

Q.—That seems to be a very satisfactory restoration during the year 1905, what do you say of that as a man familiar with insurance companies? A.—I think it is a very good showing.

Q.—Your annual statements exhibit your affairs so far as you are aware as they really existed? A.—Yes, sir. they are all certified by the auditors there.

Q.—Surplus at the end of 1904 in the statement from which I have been reading, and the summary of surpluses, is incorrect, explain that? A.—\$13,258.75; that happened this way; the previous manager had written up the head office building, the value of it; the superintendent of insurance had an independent valuation made and they reduced the value on the books of the company. When I took charge the surplus showed it \$34,977. It went along towards the end of the year when the blue book would be published, and we were not fully advised of this change until the blue book came out. The valuation of the building this year was fixed by arbitration; the company selected one arbitrator and the government a second, and the two selected a third, and the value was fixed.

Q.—The value as that enters into your surplus for 1905 has been fixed as between the company and the government by arbitration? A.—Yes.

Annual statements and summary attached filed as one exhibit, 155.

Q.—What is your method of administering the business of the company? You have a Board of Directors in the first place? A.—Yes.

Q.—And how many members are there upon the Board as it is at present constituted? A.—Twenty.

Q.—How long have there been 20 upon the Board? A.—For several years.

Q.—At all events that is the number and it has been the number since you took office there? A.—Yes.

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Q.—What other bodies have you administering the affairs of the company? A.—An Executive Committee, and a sub-committee on investments.

Q.—An Executive Committee and a sub-committee on investments? A.—That is all.

Q.—Had you another committee before, or other committees before? A.—Yes, an agency committee.

Q.—And apparently you had an insurance committee at one time? A.—Yes. We abolished those and placed all the responsibility and work upon the Executive Committee.

Q.—We will just see what the directorate and the membership of the committee are during the current year. Your Board consists of Mr. Rogers? A.—President.

Q.—Mr. Foy? A.—Vice-President.

Q.—Mr. Stone? A.—Vice-President.

Q.—Mr. Irving, Mr. Howland, Mr. Spink, Mr. Beardmore, Mr. Shenstone, Dr. Macdonald, Mr. Cockshutt, Mr. Ralston, Mr. Sparling, Dr. Milne, Mr. Doolittle, Mr. Greenshields, Mr. Laport, Dr. Hetherington, Mr. Hart, and Mr. Hobbs. The Executive Committee consists of the President, the two Vice-Presidents, yourself, the Managing director, Mr. Sparling, Secretary, the medical director, and Mr. Cockshutt, Mr. Howland and Mr. Beardmore. That is the present composition of these executive bodies? A.—Yes. Since that we have had a sub-committee on investments.

Q.—Does that appear in the answers you have given us? A.—No.

Q.—What is your sub-committee on investments. Is that a sub-committee of the Executive? A.—Yes.

Q.—And who are on that? A.—The President, Mr. Cockshutt, myself and Mr. Stone.

Q.—Mr. Stone is one of the Vice-Presidents? A.—Yes.

Q.—That is four of you? A.—Yes.

Q.—Let us see about the way in which those bodies work: how often does your Board meet? A.—The Board once a year.

Q.—The Board only meets once a year? A.—Yes.

Q.—The Board meets either before or after the annual meeting? A.—Yes.

Q.—After, I suppose it is? A.—Before and after.

Q.—How often does your Executive meet? A.—Every two weeks.

Q.—And you do not report to the Board more than once a year? A.—Once a year.

Q.—And do you then report? A.—Yes.

Q.—You report all your proceedings to the Board at the end of the year?

A.—Everything is approved by the full Board.

Q.—Then how often does your sub-committee on investments meet? A.—Whenever we are considering investments: there is no particular time for that.

Q.—Does the sub-committee on investments report before acting? A.—To the Executive.

Q.—And before it acts in the making of an investment? A.—That is the understanding.

Q.—And is that what it does? A.—Well, we have not had any experience.

Q.—You are too young a committee to have had any experience? A.—Yes.

Q.—That is what is intended to be done? A.—Yes.

Q.—That a sub-committee will take up the question of any proposed investment, and will consider it and report upon it to the Executive Committee at a fortnightly meeting? A.—Yes, or earlier if it is necessary.

Q.—Have you your by-laws in some compact form? A.—You have copies that were forwarded to the Commission—a typewritten copy I think was sent.

Q.—These are the Minutes? A.—Yes: they were sent separately.

Q.—I will pass on to something else now, and will not delay at present. Are you yourself an actuary? A.—No.

Q.—You are not an actuary? A.—No.

Q.—Now, I take up next with you the form of policy. What sort of insurance do you write? What different sorts of insurance do you write? A.—Investment insurance, non-participating policies and term policies.

Q.—When you use the word "investment insurance" what do you mean by that? A.—Limited payment life with profits, endowments with profits, or ordinary life with profits—any profit bearing policy, ten, fifteen or twenty year payment life.

Q.—Ten, fifteen or twenty year endowment and whole life? A.—Yes.

Q.—All with profits? A.—Yes.

Q.—Are those all the kinds of participating policies you issue? A.—Yes.

Q.—Do you deal in gold bonds? A.—We quote the rates, but we have not written any business.

Q.—Then non-participating policies I suppose are divided in the same

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way, whole life, ten, fifteen and twenty payment life, and ten, fifteen and twenty year endowments? A.—Yes.

Q.—Just describe what you mean by term insurance? A.—Well, five-year term, or ten-year term, that would be a policy running out at the end of the particular term period.

Q.—That is if the man survives that period the policy is at an end? A.—Yes.

Q.—It is an interim protection? A.—Yes, and we write those same policies renewable term; then at the end of the five, ten, or fifteen or twenty-year payment they may be renewed.

Q.—Renewed on a readjusted premium? A.—Yes.

Q.—Renewed as term insurance? A.—Yes, or changed to any other policy.

Q.—What is the object of term insurance? Because I gather from your figures, which we will come to in a moment, that term insurance forms a very considerable feature of your business at present? A.—That is on account of the small reserve. Our consulting actuary in his report a year ago advised us to write at least \$1,000,000 of term insurance annually, and we are trying to do it and we have succeeded.

JUDGE MAC TAVISH: Q.—You have succeeded? A.—Yes, almost \$1,000,000: between \$800,000 and \$900,000 last year, and this year the same proportion.

MR. SHEPLEY: Q.—You are, of course, sufficiently familiar with the subject to state in general terms the differences in reserve between term insurance and the ordinary insurance? A.—Well, take a twenty payment life policy, age thirty, the reserve we would put up in round figures would be \$19, and at the same age the reserve on term policy would be about \$4. I may be incorrect there: I am not an actuary at all.

Q.—There is a very substantial difference in the reserve? A.—Yes.

Q.—Has the age of your company, the length of time it has lived and been in operation, anything to do with the question of term insurance? A.—Oh, no.

Q.—It has not anything to do with it? A.—No.

Q.—Your idea is, if I understand you correctly, that in the earlier years of an insurance it assists in making the insurance self-supporting to have a low reserve? A.—Yes, exactly, and it

helps to prevent the impairment of capital.

Q.—You said something which I did not catch, to one of the Commission, with regard to what you had accomplished by means of that? A.—We have written almost a million dollars of new business on the term policies, as our actuary advised us to do, between \$800,000 and \$900,000.

Q.—And what result has that had? Is that to a substantial extent responsible for the improvement in the position which your statement shows? A.—It helped. Economy has been another. We have reduced the rates of commission that we formerly paid by considerable, perhaps 20 per cent. average.

Q.—You have been reducing the rates of commission? A.—To agents.

Q.—And you have been avoiding the putting up of large reserves, which also makes towards keeping the capital intact? A.—Yes.

Q.—Then we strayed away a little from what I was immediately asking you. We will come to the volume afterwards. These policies are alike, I think. What is this policy? A.—Life policy.

Q.—Life policy, instalment plan: that means that it is an insurance for how long? A.—For life.

Q.—Premiums payable during the whole term of life? A.—Yes.

Q.—And then the policy moneys themselves upon death, payable in instalments? A.—Yes. And then there is an option.

Q.—It is for the options that I want to refer to it? A.—Here are the options.

Q.—In respect of these privileges and provisos, are they in force in respect of all your insurance other than term insurance? A.—Yes.

Q.—Of course your guaranteed Tontine options would apply to everything except the whole life? A.—To the whole life as well.

Q.—Then I take it that with the exception of the different kinds of insurance that you have described other than term insurance, the privileges of your policyholders are alike in all? A.—Identically, except for the non-forfeiture, that is not in the term policy.

Q.—And the automatic non-forfeiture is the only one which is not in the term policy? A.—Yes.

Q.—You make a policy undisputable after two years from the date of issue, except in the case of actual fraud. Then you make the options, privileges,

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conditions and provisoes on the other side of the policy and on the succeeding pages, a part of the policy, as fully as if they were herein stated over the seal and signatures affixed? A.—Yes.

Q.—Your guaranteed Tontine options are as follows: "On all policies on the Tontine plan, profits will be computed by the company according to its rules and regulations from time to time, which profits shall be shared, not only by those policies in force at the maturity of their dividend period, etc., and provided that the assured shall be then alive." How many different dividend periods have you? A.—Ten, fifteen and twenty years.

Q.—Then, if the policy be in force and the assured alive at the completion of the dividend period, the legal holder of the policy shall have the option of continuing or discontinuing it, under any one of the following six benefits if the policy be continued: first, receive the profits in cash? A.—Yes.

Q.—Second, receive the profits converted into paid up insurance, subject to evidence of good health satisfactory to the company. Third, receive the profits converted into an annual income for life, which may be used to reduce future premiums." What would be the premium on the continuation of the policy if that plan were adopted—any one of those three plans—the same as the premium that is now being paid? A.—It would all depend on the actuarial calculation.

Q.—What I mean to ask is this: is there a readjustment of the premium, or is he permitted to continue his policy upon the premium originally fixed? A.—Oh, yes: that is optional.

Q.—How do you mean it is optional? A.—He can continue it at the premium originally agreed upon and receive the profits allotted to the policy: the premium would never increase.

Q.—That is, if that were a policy for \$1,000, at the end of the Tontine period your policyholder would be entitled to go on paying the rest of his life? A.—Exactly.

Q.—And at the same time to get the profits. A.—Apportioned.

Q.—Either in cash or in paid up insurance, or in the shape of an annual income for life? A.—Yes.

Q.—The policy itself, after the exercise of this option, would be non-participating, I assume? A.—No, it

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would continue. If you read on you will see.

Q.—No, it goes on to say "If it is discontinued." Supposing the Tontine period arrives, and I go to you and say "I will have my profits in cash, and I will go on paying the premiums for the rest of my life," would I share in profits again? A.—Yes, each five years afterwards.

Q.—And would the same options be given me at the end of each five years? A.—Yes.

Q.—And then if the policy be discontinued the insured is entitled to receive in cash the entire cash value—that is the full reserve—then do you fill in the amount on that? A.—Yes.

Q.—You guarantee a reserve? A.—Based on $3\frac{1}{2}$ per cent. tables.

Q.—And in addition thereto the profits apportioned to this policy: five, receive the said entire cash value converted into non-participating paid-up life insurance, subject to evidence of good health satisfactory to the company only if the paid up insurance shall exceed the original sum assured." Does that mean that he does not have to be examined unless the paid up insurance exceeds the original sum? A.—That is right.

Q.—Then the sixth is: he is entitled to receive the entire cash value converted into an annual income for life? A.—Yes.

Q.—"If any one of the first three benefits is chosen, and this policy is continued," etc. (Reads clause.) That may again be five, ten or fifteen years? A.—Yes, at the option of the insured.

Q.—"If the insured fails to notify the company," etc., "which benefit has been selected, the company may convert the profits into number three as above: that is into an income for life? A.—Yes.

Q.—There are no restrictions as regards residence, travelling, or occupation? A.—No.

Q.—Then the usual calendar month grace? A.—Yes.

Q.—And a provision for reviving the policy within twelve months after it has become void? A.—Yes.

Q.—Then surrender and paid up values: "After three or more complete annual premiums have been paid hereunder," etc. (Reads). It provides that the company shall grant either a cash surrender value, or non-participating paid up insurance for the amount applicable and specified below.

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Then you have a table here which operates as a guarantee what these cash surrender values are to be? A.—Yes.

Q.—Then there is a provision as to loan values: that also is based upon three or more annual premiums having been paid, there having been no default? A.—Yes.

Q.—You have in your table here at the end of the third and every subsequent year either a guaranteed paid up insurance, guaranteed cash surrender value, or guaranteed loan value? A.—Yes.

Q.—Then come the automatic non-forfeiture: "At the time of the non-payment of any premium on this policy after it has been three years in force, if the cash surrender value specified in provision number 4 above, after deducting any indebtedness to the company and the interest accrued thereon, shall exceed the amount of such premium, the policy shall not lapse"? A.—Yes, that is right.

Q.—"The amount of such premium shall be advanced as a loan by the company without any action by the assured, and shall be a first lien upon the policy in favor of the company," etc. That is, you have a first lien on the policy for the amount that you put out of the cash surrender value to pay the premium? A.—If the policyholder fails to pay his premium, assuming there is any surrender value, we would use it to keep the insurance in force.

Q.—Is the cash surrender value at any time after the third year enough to pay a premium? A.—Oh, yes, more than enough.

Q.—And at the end of say the twelfth or thirteenth year is it enough to pay several premiums? A.—Yes.

Q.—Then the clause proceeds "This policy shall continue in force so long as the balance of the said cash surrender value is sufficient to cover the annual premium and interest thereon, but should said balance be insufficient to cover said premium, or should the accumulated indebtedness upon this policy, etc., exceed the cash surrender value, this policy shall thereupon become void." Then he is entitled to pay the whole or any part of his indebtedness at the time the policy is in force, and he can also reduce the rate of interest on his indebtedness by depositing a sum and signing a loan agreement in accordance with number five? A.—Yes.

Q.—I see you make your contract subject to and governed by the laws of the Province of Ontario in force from time to time? A.—Yes.

Q.—When that automatic clause operates to keep a policy alive, are any of the other rights of the insured under his policy, or any of the other provisions, impaired in any way? A.—Not at all, only to the extent of his indebtedness.

Q.—I mean any of the other privileges he is entitled to under the policy, if you take from his cash surrender value enough to pay the premium—you diminish that, of course, to that extent—but do you disturb any of his other privileges? A.—No.

Q.—As I understand it, it is quite clear that your policy holder does not have to come to you to make application in that respect? A.—No.

Q.—You do all that for him? A.—Yes.

Q.—Is there any advantage to the policyholder in respect of the privilege you give him, over a privilege which entitles him to automatic term insurance? A.—I should think so. I would rather refer that to an actuary for an answer.

Q.—I should have thought the term insurance would not share any profits? A.—Oh, no, the term insurance is simply buying something at cost; the other policy has a surplus credit to it.

Q.—And then the term insurance is liable to expire when the term runs out? A.—The term insurance lapses for non-payment of premium after thirty days' grace.

Q.—I should think we might conclude that your automatic non-forfeiture clause is more to the advantage of the policyholder than one which only gave him automatic term insurance? A.—I should think so, yes.

Q.—I suppose it goes without saying also—it is hardly necessary to put the question—that it is better—that is from the standpoint of the policyholder—better than a plan by which he has to find whether he is in default and come and make an application? A.—Decidedly. It is one of our strong arguments in competition in the business.

Q.—This does not go all the way back to your commencing. Have you prepared a statement going any further back, showing the volume of the different kinds of insurance in force? A.—We sent you a complete detailed statement of that right down to date.

Q.—But you have not it in this form? A.—Yes.

Q.—This gives the life, endowment and term policy for 1904 and 1905? A.—You want it each year?

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Q.—Yes; that can be got? A.—Yes.

Q.—Take it for 1904 and 1905; because for the purpose of comparison that is probably as useful as if we had it all. On the 31st December, 1904, you had life policies in force to the extent of \$2,731,731; endowment policies in force \$1,077,523, and you had term insurance in force to the extent of \$700,500? A.—Yes.

Q.—At the end of 1905 your life policies had slightly increased, but not very much: \$2,732,842? A.—Yes.

Q.—Your endowment policies had also increased slightly, \$1,085,480? A.—Yes.

Q.—And your term policies had increased from \$700,000 to \$1,307,315? A.—Yes.

Q.—That was in consequence of what you have told us already, that in accordance with the advice of your actuary you were pushing the term insurance? A.—Yes.

Q.—Then I think you have already explained to us that that has the advantages which you stated to the Commissioners? A.—Yes.

Q.—And you have also explained to us that during 1905 you have been vigorously reducing your expenditure? A.—Yes.

Q.—In the long run—let me put a question to you in that way—in the long run is term insurance as advantageous from the standpoint of the company as the other insurance? A. Oh, yes, if it is well selected. Perhaps I should explain this: that our term insurance is five years option policy: that is, at the expiration of five years it provides for a renewal to an endowment or limited life policy, quoting the rate, and making provision for loan values, beginning at the beginning of the change: so that the policy has other attractive features, and the premium is a very attractive one for the company, and it is a good value to the insured.

Q.—What I was more concerned with just at the moment, would you, by reason of the experience you have gained in respect of the value of term insurance, would you think it a desirable feature to always maintain a large volume of term insurance, or would you like to see that, as you get older, and as your resources become greater, would you like to see that replaced by life insurance? A.—It would be more attractive; the larger the premiums the more attractive for the company.

Q.—And the premiums are larger when you get to the regular line insurance? A.—Yes. With the large

reserve required in the early history of the company, without a large renewal income, you must necessarily impair your capital, if you wrote all your business on endowment payments, or limited payments, and we thought it better to give the insured a special policy, which we call our five year option policy, and it has taken very well.

Q.—The feature of it is that you are enabled to charge a lesser premium because the risk is not so great? A.—Exactly.

Q.—A man is more likely to live over five years than he is to live over the estimated period of life? A.—Yes, and in writing those policies we select the business. We would not write a term policy, or a five year option policy, on a hazardous occupation. We are careful in that way.

Q.—In that respect also you select your risks? A.—Yes.

Q.—Then by reason of the lesser risk you are also enabled to make just as sound a provision with a smaller reserve? A.—Oh, undoubtedly, yes.

Q.—Now, I pass to some of the other matters upon which the company has been engaged. I think you have already told me that your policyholders have not been given any rights at all in respect of voting? A.—No, sir.

Q.—Are you able from your standpoint as an insurance manager to express an opinion as to the desirability or otherwise of policyholders taking part in the management of a company? A.—I have never given the matter any thought.

Q.—You have not thought that out? A.—No.

Q.—Have you ever been connected with a company where the policyholders did take part? A.—No.

Q.—Now, Mr. Ralston, I want to know what directors of yours are connected with any other institutions with which you have dealings? A.—We transact our bank business with the Imperial Bank.

Q.—And I think you hold some Imperial Bank stock as a security? A.—We own some Imperial Bank shares; that is the only institution.

Q.—What directors of yours are connected with the Imperial Bank? A.—The President, and Mr. Cockshutt and Mr. Howland.

Q.—Was their connection with the Imperial Bank, do you know, before or after their connection with your company? A.—Mr. Howland, I think,

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has only been a director of the Imperial Bank a short time.

Q.—Since his father's death? A.—No, in the past six months, I think.

Q.—Mr. Peleg Howland is on the Board of the Imperial Bank now, but has only been there six months? A.—I would not say positively, but I think it is only a short time.

Q.—He was not there during his father's lifetime? A.—Not to my knowledge.

Q.—Then Mr. Rogers? A.—I think he was formerly associated with the Imperial Bank. I could not answer that. I have only been with the company a little over a year.

Q.—I thought you would have made these enquiries so as to be prepared to answer these questions a little more in detail. With the exception of these three gentlemen, and their connection with the Imperial Bank, upon the Board of that institution, is any other director of yours concerned in the management of any other financial institution? A.—One of our directors is a director of the Dominion Bank and another of the Bank of Toronto.

Q.—Which are these? A.—Mr. Foy is in the Dominion Bank and Mr. Stone the Bank of Toronto.

Q.—Your company does not do anything with the Bank of Toronto, or does it? A.—No.

MR. KENT: I would like to know if he found any difficulty in getting insurance at the reduced rate of commission.

MR. SHEPLEY: Q.—Are the commissions which you are paying to your present agents sufficiently attractive to make them work for you and work satisfactorily? A.—Well, we do a very much larger business, an average increase of 199 per cent. each month this year.

MR. SHEPLEY: That, perhaps, answers the question inferentially. They could not, of course, have made the change without experiencing some difficulty, but they have surmounted it. We will put in a statement of what commissions are being paid.

MR. KENT: I understand he is satisfied with the work of his agents on the lower commissions.

MR. SHEPLEY: Q.—That is so, is it? A.—No, we are never satisfied.

Q.—You always thought they might have done more? A.—We are hoping so.

Q.—Upon what rate are you calculating your reserve? A.—Three and a half H.M. table.

Q.—And as your company came into existence or commenced business in 1889, perhaps that has always been the rate? A.—Always been the rate.

Q.—I will take up, before leaving the policies, your proofs of loss, and I see that you were rather severe on the claimants: you make them answer a good many questions? A.—Mr. Marsh is responsible for that

(Proofs of loss fyled, Exhibit 156.)

Q.—This is a statement of your commission rates? A.—Yes. This is discontinued now. That is five flat now.

Q.—For all kinds of policies? A.—Yes. And this has been altered to twenty here.

Q.—This is an alteration that has been made in the rates of commission stated there? A.—Yes.

Q.—This purports to be a statement of the commissions paid down to April, 1905, and added to it is a statement of the saving that has been made since that time? A.—Yes. (Exhibit 157.)

Q.—This is your form of policy loan agreement? A.—Yes.

Q.—And this is the notice that you sent out— A.—No, this we fyle.

Q.—Do you send that out when interest is due upon a loan? A.—No, this is separate from that. Where the policy has the right of the non-forfeiture feature, we fill up one of these and fyle it away as a lien on the policy.

Q.—Do you, like other companies we have heard about, when you have made a loan upon a policy, make the interest on it payable along with the premium on the insurance? A.—The interest is payable in advance: if the loan is paid off before the end of the year we take a year's interest in advance, if a loan is paid off any time before the unearned interest is returned—

Q.—We were told in the case of another company that where there is a loan made by the company that the interest on that loan is made to fall due on the same day the premium falls due on the policy itself? A.—We make it fall due on the last day of the year, with 30 days' grace.

Q.—The last day of the calendar year? A.—Yes.

Q.—Then it does not coincide with the due date of the premium? A.—No.

Q.—This agreement in most respects does not differ with the loan agreement we have heard about, but that is an important difference. Then this is the form of the notice—

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you send out: this is the non-forfeiture notice? A.—Yes. (Notice exhibit 158.)

Q.—Then another question about that notice. When you put a loan upon the insured's policy in that way, does he get any notice of what there is left available for further premiums? A.—I fancy so.

Q.—Perhaps you can find that out and let us know? A.—Yes.

Q.—And if there is a regular form for that, let us have that? A.—Yes.

Q.—In other words, the extent to which you keep your policy holder advised as to what there is to his credit? A.—Yes.

MR. SHEPLEY: The matter which I expected to be able to go on with, the profit and loss statement of this company, is not ready. We had it, but after we got ready to ask questions about it, we found there was an error in it, and that is being rectified by the company, and we will have it here on Friday morning.

JUDGE MACTAVISH: You prefer not going any farther to-night?

MR. SHEPLEY: Yes.

(The Commission then adjourned till Friday, 25th May, at 10 o'clock A.M.)

TWENTY-NINTH DAY.

Toronto, May 25th, 1906.

Albert J. Ralston—Examination cont'd—

By MR. TILLEY:

Q.—I understand the profit and loss statement is not ready yet? A.—It will be over in half an hour.

Q.—These are the by-laws of the National Life Company, are they? A.—Yes.

Q.—And they show the by-laws as originally passed, down to 56 or 57—56 was it? A.—Down to 59

Q.—And then following that you give the amendments of by law 29? A.—Yes.

Q.—Which have been made? A.—Yes.

Q.—Does this statement show all your by-laws then, whether original ones or bylaws that have been passed since? A.—Yes.

Q.—There has been no by-law apparently giving the policyholders any

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right to vote or any representation at company's meetings? A.—No.

Q.—Has the company power to do that under its charter? A.—Not to my knowledge.

Q.—Is there not power in the company to give the policy holders certain rights of voting? A.—That is a legal question I think.

Q.—Has the question of giving them voting rights ever been discussed? A.—No.

Q.—Since you have been manager? A.—No.

Q.—Do you think policyholders in the participating class should have the right to vote? A.—No.

Q.—You think they should not have? A.—Yes.

Q.—Then in your judgment it is inadvisable to make any change in your company in that regard? A.—Yes.

Q.—These policyholders in the participating class have an interest in the funds of the association and in the profits, have they not? A.—Yes.

Q.—Then why should they not have some vote—be able to express their views at the annual meeting as to the management? A.—Well, we did not agree to do so in our policy contract. We strive to live up to our contract in the policy.

Q.—You did not agree to do that? A.—No.

Q.—In your opinion is it advisable to do it, without regard to what you have agreed to do? A.—I have never given that matter any thought.

Q.—Could you give it a little thought now? A.—I would not be in favor of it.

Q.—I thought that was where you started a minute or two ago. You would not be in favor of it anyway? A.—No.

Q.—Why would you not be in favor of it? What are the objections to it? A.—We have difficulties enough now looking after the shareholders and the rest of us, without getting the policyholders in.

Q.—Whom do you mean when you say we have difficulty enough? A.—Myself, I should say.

Q.—And any others? Or do you mean the directors or the managers of the insurance company? A.—I would rather not express an opinion there, if you would allow me not to.

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Q.—I do not know why we should not have the benefit of your opinion?

A.—Perhaps it is of little value, because I am strongly prejudiced against policyholders having a vote.

Q.—You are prejudiced against their having voting power as applied to any companies? A.—It is not a practical question.

Q.—You are not speaking now with regard to any special circumstances that exist in your own company? A.—No.

Q.—Then if that is the case you might give us the grounds that exist why you think they should not have the right? Well, I have never heard of a policyholder having that privilege taking advantage of it. You see our policyholders are all over the Dominion. It would be impracticable for them to come here to the annual meeting.

Q.—Well, then, it would do no harm? A.—Well, I think it would do a lot of harm, because there would be such a variety of opinion you could never get good management.

Q.—But if they do not attend the meeting there would not be any variety of opinion? A.—Well I do not see where there would be any good derived.

Q.—You think there is no benefit from giving the policy holders a vote? A.—That is right.

Q.—You think there is no benefit? A.—No.

Q.—You think the shareholders should have the entire control of the company? A.—Yes, subject to the approval of the Insurance Department, of course.

Q.—Subject to the approval of the Insurance Department? A.—Yes.

Q.—But the Insurance Department has not exercised any supervision over the method of dividing the profits between the policyholders and the shareholders? A.—Not to my knowledge.

Q.—In your scheme who is representing the policyholder? A.—The directors.

Q.—And they are the shareholders? A.—Yes, part of them.

Q.—No policyholders on your board of Directors at all? A.—No.

Q.—Does that not put it in the power of the directors of the company to deal with these policyholders as to profits as they may see fit? A.—Yes.

Q.—And do you think that is right and fair? A.—Yes.

Q.—Section 15 of your Charter reads as follows—"The company may agree to give to holders of participating policies the right to attend and vote in person at all meetings of the company, and if the company so determines, then all persons who are actual holders of policies from the company, whether such persons are shareholders of the company or not, and who are by the terms of their policies entitled to participate in profits, and are referred to in this Act as holders of participating policies, shall be members of the company, and be entitled to attend and vote in person at all general meetings of the company, and each holder of a participating policy for a sum not less than \$1,000 shall be entitled to one vote for each \$1,000 in his policy." Did you know that that clause was in your Act? A.—Not until you read it, or not until Wednesday last.

Q.—You did not know that that clause was there until it was pointed out since you have been giving evidence? A.—No.

Q.—So that no discussion of the clause has ever taken place? A.—Never taken place.

Q.—Then you would still object? A.—Decidedly.

Q.—To acting under that clause and giving them any vote at all? A.—Yes.

Q.—Have you ever had any active part in the management of any other company than the National Life? A.—Yes.

Q.—What company? A.—The Great West Life.

Q.—What position did you occupy there? A.—I was manager for the Maritime Provinces for seven years and about three years and a half manager in Ontario.

Q.—The head office of the Great West Life is in Winnipeg? A.—Yes.

Q.—Then you never had any part in the Head Office management of the company? A.—Well, under their system the branch office is identically the same as the Head Office, excepting the issuing of policies and the investing of the funds.

Q.—But then you had no part in the control of the company as to policyholders' rights and shareholders' rights, and as to voting power, and so on, in the Great West Life? A.—No.

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Q.—You never had any experience there that indicated to you that policyholders did not properly exercise the franchise when they were allowed to vote? A.—Well, I have been actively in the field, coming daily in contact with policyholders, and I have never heard of a policyholder who had a vote taking advantage of it in any company. As far as the Head Office of the Great West Life is concerned, I never met a policyholder who asked for that privilege.

Q.—Still the privilege was there for him? A.—Not in the Great West Life.

Q.—We have not come to that, but where the policyholder is given the right to vote he has a certain status in the company? A.—If he is aware of it.

Q.—Well, he has the status whether he is aware of it or not? A.—Oh, yes.

Q.—And he is not so completely under the control of the shareholders or the directors? A.—That is a matter of opinion.

Q.—Well, he would not be so completely under their control, would he? A.—No.

Q.—There cannot be much difference of opinion about that. What is the paid up capital stock of your company? A.—The subscribed capital stock is \$1,000,000, and the paid up \$200,000.

Q.—Then it would not be a very difficult matter, one would think, to get control of a company with a capital that size? A.—I think it would be very difficult.

Q.—Are you speaking now of your own company, the National Life? A.—Yes.

Q.—Because your shareholders would not care to part with their stock probably? A.—Not just now.

Q.—But where the capital stock is small, in that way it renders it comparatively easy in the case of some companies, at any rate, for the control of the company to pass into the hands of one or two persons, does it not? That is, if policyholders have no right to vote? A.—All things are possible, certainly.

Q.—And that would be comparatively easy, would it not? A.—It all depends.

Q.—Depends on what? A.—Depends on who is trying to do it. One man might succeed in getting control of the company, where another set of men could not. I am not prepared to answer that question.

Q.—You are not prepared to answer

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it. We will leave it at that. Do you regard it as a good thing for the control of a company to be in the hands of one or two persons? A.—If they are the right kind of persons, yes.

Q.—You think there would be no objection to that with certain persons, and there would be an objection if other persons had the control? A.—I do not know.

Q.—Beg pardon? A.—Most companies are generally managed by a few.

Q.—Do you mean by that that the control of the capital stock of the company is in the hands of a few? A.—Not necessarily—I mean the management.

Q.—Quite so; the management would be in the hands of a few, but don't you regard it as an advantage that it is possible where you have a company with a comparatively small paid up stock and the policyholders no right to vote—do you regard it as an objection that the control of such a company may readily pass into the hands of one or two persons? A.—No.

Q.—You do not regard that as any objection? A.—No. If the company does not do what is right by its policyholders they will not do business.

MR. LANGMUIR: The way the witness expresses himself is not quite clear to me. Do I understand that if policyholders had a voice in the management you are afraid that it would bring out an expression of individual opinion, individual grievances, instead of corporate action? A.—Yes.

Q.—Is that what you mean? A.—Yes.

Q.—Do you know of any cases where it has had that effect? A.—I could furnish you with a list.

Q.—I just merely wanted to know in a general way if that was on your mind? A.—Yes.

Q.—Because it is the first expression I have heard from the management of that view. They have always expressed themselves in favor of it. But you are entirely opposed to it, I understand? A.—Yes.

MR. TILLEY: Q.—So far the only question raised by managers has been as to the way in which it could be done so that they would vote. But Mr. Ralston does not want them to vote at all, as I understand it? A.—Yes.

Q.—Even if the ideas of the policyholders could be declared at the annual meeting, so that they would give

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expression to their honest views, you still would not favor their having a voting power? A.—That might change my views somewhat. I do not think it is a practical question. I do not think you could get a proper expression of opinion from your policyholders.

Q.—Do you mean to say that they would not vote at all, or that they would express views they did not seriously entertain? A.—Both.

Q.—Take the latter case, how would that occur? A.—Well, life insurance is rather a peculiar business. In my experience I only know of one case where an applicant really came to the office and said he wished to insure his life. I believe practically all the business written to some extent is secured under pressure. Perhaps the man is aware that life insurance is a good thing and he ought to have it, but somehow or other he wants to do it to-morrow or some other day and I very seldom meet a man who reads his policy contract and who takes an interest in it, beyond the fact that he is insured.

Q.—That is, as I understand you, a reason why you think they would not vote at all? A.—That is one reason.

Q.—You think that is the main reason why they would not vote at all? A.—Well, I would rather be responsible to a certain number of men, than be responsible collectively to a lot of men.

Q.—But that is the reason you give why they would not vote—not why you would not give them a vote; that is not all your reason why you would not give them a vote, but that is the reason why you think they would not vote, even if they had the right? A.—Yes.

Q.—Why do you think, if they did vote, you would not get an honest expression of their views? A.—My experience has taught me that in the life insurance business agents have a variety of opinions. Each agent, as a rule, thinks his company is the very best. There is many a man who has an insurance policy who is thoroughly well satisfied until an agent of some other company convinces him that he could do much better for him, and so on, and it seems to me that there would always be someone, or some set of men, who would not be satisfied, or they would not understand their contract, and it would not work out in a practical way. There would be confusion all the time. I would not care to be a manager of a life insurance company where I had to account

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to all the policyholders, or depend upon my position—

Q.—Is that the point of view you are speaking of? A.—That is one strong point.

Q.—I understand you to admit that in the way insurance business is carried on now, many persons are pressed to insure who otherwise would not insure at all, and afterwards regret that they did insure? A.—That is right.

Q.—And there are many persons who do not thoroughly understand the contract that they are entering into? A.—Yes.

Q.—And these persons, after they enter the company, afford a great deal of trouble, and would afford more if they had the right to vote? A.—I think so.

Q.—And it is for that reason that you would not give them the right to vote. Would it not be better if in some way there should not be that strenuous race for business, and people forced into these contracts without thoroughly understanding them? A.—Well, that is the fault of the man buying the insurance.

Q.—No, it is not the fault of the man buying the insurance it is a good deal the fault of the agent, and it is a good deal the fault of the company. Would it not be better if these companies met these disgruntled people a little oftener? A.—I see your point.

Q.—Well, what do you think of it? A.—I do not think it is a practical one in our business.

Q.—You would prefer, would you, to carry on business knowing that you have these policyholders who have been led into it a little against their will possibly, or not really consenting, not thoroughly understanding it: it is better to get them in, and then keep them where they cannot complain? A.—No, no.

Q.—I am not speaking of the National Life particularly? A.—I do not believe in that principle.

Q.—You do not believe in that principle? A.—No.

Q.—If these men could be heard from at the annual meeting in a proper way, would it not be a good thing for insurance that they should come there and complain? A.—I do not think it would work out at all.

Q.—Would it not work out that a great many of these people would not be insured who are now insured? A.—I do not think so.

Q.—You think it would not have a tendency to induce your company, or its agents, to leave that man who

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is not going into the deal freely and with a clear understanding, to leave him alone? A.—I would be in favor, if a man was not satisfied with his insurance, to let him out.

Q.—Oh, no? A.—Well, we do it. I do it. I never ask a man to keep a policy if he says it is not satisfactory to him.

Q.—What do you do? Return him his money? A.—If he asked for it.

Q.—After how long? A.—Whenever he asks for it.

Q.—Do you mean to say that if a man comes to you after he has paid one premium, or two premiums, and says "I did not quite understand this, and want to get out of it," that you would give him his money back? A.—Well, not that easy. If it was shown or proven that there was some misrepresentation, or that it was not what he wanted, if we could not give him what he wanted, or if it was not a straight transaction, we would end it there and return to him his money, and we have frequently done so.

Q.—You have frequently done so where you have come to the conclusion that the man bought something that he did not know he was buying? A.—Exactly.

Q.—Then that occurs. A.—Yes, I fancy in all companies..

Q.—And in the best of managed companies? A.—I presume so.

Q.—I suppose that that race for business is caused by the high inducements that are offered to agents? A. Oh, no. In my case it is an ambition —Oh, no. In my case it is an ambition to have a big company. I rather like it.

Q.—Well, that is not what the local agent who is canvassing is thinking of. Is not that result you have spoken of due to the high commissions and the high expenses paid by the companies towards getting this new business? A.—I am not prepared to answer that. I would rather leave that question alone.

Q.—You would rather leave it alone? A.—Yes. I am frank to admit that commissions are too high, but whether that has anything to do with the race for business I am not sure.

Q.—Then is there any way that you can suggest whereby you can be sure that the policyholders understand the contract they were entering into better? A.—No.

Q.—Have you given that subject any consideration? A.—Yes.

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Q.—Is there any duty on the Medical Examiner to enlighten the applicant to see whether he understands the contract he is entering into? A.—No.

Q.—Would that be of any assistance? A.—No. We separate our medical part from the agent's end of it.

Q.—How do you mean, now? A.—Our medical examiners are not responsible in any way to the agent.

Q.—Responsible for what? A.—In connection with the getting of the business.

Q.—How could they be responsible to the agent in connection with getting the business? A.—They could very easily be responsible.

Q.—How? A.—If the medical examiner was to question the applicant at the time of the medical examination, ask him whether or not he was satisfied with the insurance applied for, and so forth, that would create trouble. I fancy you could not keep an agent if you had that state of affairs.

Q.—That is the agent who had a medical examiner asking such a question as that would not continue in the work? A.—I fancy not.

Q.—Why not? A.—Well, the agent no doubt would consider it an interference. He has worked up the business and he has brought the applicant to the examiner for examination.

Q.—The examiner is appointed by the company as much as the agent? A.—Yes.

Q.—And why should not the company say to the medical examiner, by way of definite instructions to him "We want you to ascertain that the applicant thoroughly understands the transaction he is entering into?" A.—No. Then we would not have any confidence in our agent, if we did that.

Q.—Well, you have given us some evidence that indicates that you should not have any too much confidence in him? A.—I did not mean to convey that impression.

Q.—I am not speaking of the National Life agents: I am speaking of insurance in general? A.—Yes.

Q.—Because I have no reason to think it is any different in your company from any other company? A.—Thank you.

Q.—But I want to know what your views would be on that. It is an evil, is it not, that a great many applicants do not thoroughly understand

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what they are doing? A.—That is their own fault.

Q.—It is the fact in the first place, is it not? A.—Yes.

Q.—And it is due to some extent to the agent, without putting full responsibility on him, it is due to some extent to the way he talks to the men? A.—I do not think so.

Q.—You think not? A.—In my idea, every man is responsible for his own acts. If a man signs an application for life insurance and does not understand what he is signing, that is his own fault. I blame that man more than I do anything else.

Q.—But a great many of these persons are not as keen as the agent, are they? A.—I have seen a great many men who were much keener.

Q.—There is no question about that, but there are a great many of them not so keen, on insurance matters anyway? A.—Perhaps.

Q.—And it would have a tendency to prevent that if some intelligent person, like the medical examiner would naturally be, should explain the nature of the transaction to them and see that they understand it? A.—I would be glad to have that done if necessary. But we always assume, until we know otherwise, that our agents are reliable, and if we have an agent who does not do that, we do not keep him.

Q.—There is no doubt the agent would object to that, would he not? A.—I fancy he would.

Q.—He would often lose his man, would he not? A.—He might.

Q.—Do you observe the provision in by-law 21 as to one half the directors retiring each year and the other half remaining? A.—Yes.

Q.—Is that with a view to what you have been speaking about as to keeping uniform management as far as possible? A.—Well, that is the original by-law. I had not anything to do with it.

Q.—I suppose it would assist in that? A.—I fancy, yes.

Q.—Not having a complete change, at any rate, of all the directors in any one year? A.—There are one-half going out each year.

Q.—There is an odd number? A.—Yes.

Q.—Eleven would go out one year? A.—And ten the next.

Q.—There would be no possibility of making a complete change in the whole Board of Directors? A.—I do not think so.

Q.—In any one year? A.—No.

Q.—Has there been any forfeiture of stock in your company, do you know? A.—Not to my knowledge.

Q.—I see there are provisions here for forfeiting where there is non-payment of a call. A good many of these are just the Statutory provisions which are enacted here, and the provision as to forfeiture seems to be very reasonable and very proper. Then by-law 43 as to declaration of profits you say has not been acted on at all? A.—No.

Q.—There had been no profits paid to the shareholders or to the policyholders either? A.—No, no profits due on our policies yet; lots of future profits due to the shareholders.

Q.—Lots coming to him in the future? A.—Yes.

Q.—Under your by-laws there is no provision for giving profits at less than five year periods? A.—No.

Q.—Do some companies give profits to policyholders each year? A.—No.

Q.—I suppose that this was a provision that was put in before your connection with the company? A.—Yes.

Q.—Tell me what would be the reason that would prompt such a clause as that in the charter? I think it is also in the charter, is it not? A.—Yes, I see it is section 14 in the Charter. Mr. Marsh tells me that he thinks that is the usual form adopted by companies? A.—I think so.

Q.—I would not contradict you, but I do not think I have seen that in any other charter yet. Certainly other companies declare profits every year on some of their policies? A.—I know of no company that from its beginning declared profits annually.

Q.—You know of none from its beginning, but do you know of any company in its later years that has not declared them annually on some policies issued in that way? A.—From the beginning of the life of the company.

Q.—Yes, from the beginning of the policy? A.—I do not know of any.

Q.—Do you know of any company which adheres to this rule which is in your by-law, that the directors shall not be obliged to allot such portion of profits to such holders of participating policies oftener than once in five years? A.—No. I think that is a very reasonable restriction.

Q.—I suppose that would depend entirely on the policy they issue? A.—Yes.

Q.—If they issue a policy calling for the distribution of profits oftener than once in five years, they would

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have to distribute? A.—They probably would not have any to distribute.

Q.—Not in the early stages, anyway? A.—That would be getting business under false pretences.

Q.—How many years must a company carry on business before it can give profits? A.—That is a hard question to answer. It all depends upon the management.

Q.—When may the National Life expect to declare some? A.—We hope to declare them as soon as they are due.

Q.—When will that be? A.—About three years from now.

Q.—That is the first policies you issued? A.—Ten year policies.

Q.—So that there would be no profits due until three years from this date? A.—Three or four years.

Q.—Has the company always appointed the auditors required by the by-law? A.—They are appointed by the directors, the full Board.

Q.—And they make their report to the Board? A.—Yes.

Q.—And I suppose there is no statement in any way sent to shareholders? A.—Yes; there is a copy of the annual statement sent to every shareholder and every policyholder.

Q.—I notice a provision here that loans should not be made to any shareholder of the company? A.—Yes.

Q.—Has that ever been departed from? A.—Not to my knowledge, not since I have been manager. It am not aware of any loans having been made.

Q.—You are not aware of any loans being made to any shareholder of the company? A.—No. Our funds have never been invested by way of mortgage security.

Q.—Mortgage on what? A.—Real estate.

Q.—What has been the nature of your loans? A.—Debentures entirely; I might add, some Imperial Bank shares and Consumers' Gas. Everything else is bonds and debentures, Provincial, City, town and county.

Q.—Municipal debentures? A.—Yes.

Q.—And some company debentures, have you? A.—No, we have no company debentures.

Q.—You have some bank stock? A.—Yes.

Q.—And then I notice you have been making some call loans to brokers? A.—Not in my time, not since I have been manager.

Q.—Is that a change that you have

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made in your management, or was it made before you became manager of the company? A.—No. The President and myself discussed that question, and we decided that it was better for us not to do so.

Q.—Some insurance companies make call loans extensively? A.—Yes.

Q.—And your company for its size made a good many in the early years, not later years? A.—Yes.

Q.—Did you consider it objectionable? A.—No, excepting we were not large enough, or we have not a staff large enough to watch these things, to handle them properly, and if we invested our funds in debentures—

Q.—Tell me a little more definitely what you mean by that? What does it involve to make these call loans? A.—Well, a loan may be made to-day and paid off to-morrow, or a few days from now, and a fluctuation in the value of shares may change—

Q.—You must watch the market value of them? A.—Yes.

Q.—And you say that it requires to carry on that call loan business a larger company and larger staff? A.—Yes.

Q.—A company that can have its money paid back to it without notice and will find some place to use it? A.—Yes.

Q.—You thought that debentures would be a better investment for your company? A.—We all thought so.

Q.—Have you any knowledge as to the wisdom of call loans from the return standpoint for the company? A.—It would not amount to much for us at all, because we have not sufficient surplus funds for that purpose; so the difference in the rate of interest would be very trifling.

Q.—Do you lend on real estate? A.—No.

Q.—Why not? A.—We have never followed that.

Q.—Would it be because you think it improper for a young company to tie up its money for periods of four or five years or not? A.—No.

Q.—That does not affect you? A.—No. We think it is cheaper and more convenient to buy debentures, and after their purchase they are locked up in our box, and we have no further trouble. If we were loaning on mortgage we would have to have a regular loaning department.

Q.—If we were loaning on mortgage you would have to have a loan department, and it would give you, you think, more trouble than carrying your

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investments in debentures? A.—Well, it would take up more of my time, and I could spend it getting in the new business more profitably to us.

Q.—Do you propose lending on real estate? A.—Not now.

Q.—Can you compare the benefit to the company from real estate investments as compared with the other investments that are open to you? A.—Well, our directors favor debentures.

Q.—That is municipal debentures? A.—Yes.

Q.—And Provincial, City, town and County? A.—Yes.

Q.—Do you think that insurance should be restricted to municipal debentures and real estate investments, the same as trustees are? A.—No.

Q.—Why not? A.—Well, as a business proposition I think life insurance companies should have the same opportunities as any other Provincial institution in the investing of their funds.

Q.—An insurance company differs from other financial institutions in that its funds are to a great extent trust funds for the policyholders, to be paid to them in the future, years hence, does it not? A.—Yes, in a way.

Q.—They are trust funds? A.—Yes.

Q.—Should an insurance company not be restricted in the investment of these trust funds just the same as any other trustee would be restricted? A.—As long as it is satisfactory to the Insurance Department. My idea of that is this: that if a life insurance company are allowed to do business, it is because they have been thoroughly investigated by the Insurance Department and found all right.

Q.—Would you think that it would be wise to have the Insurance Department exercise such paternal care over the insurance companies as to go through and see that every investment was proper? A.—Yes.

Q.—You think, then, that it would be wise that the Insurance Department should approve of every loan made? A.—Oh, no.

Q.—What do you mean by that? A.—That the securities are within the Act.

Q.—I am asking you what the Act should be? A.—I beg your pardon.

Q.—What should the Act be? A.—I am not prepared to say.

Q.—Should the companies be allowed to invest in the stocks and bonds of electric companies or not? A.—If they are all right and good security.

Q.—You think they should not be restricted as ordinary trustees are restricted in the investment of their funds? A.—No.

Q.—I notice some call loans on Twin City Rapid Transit Company. Do you know whether that is an authorized investment or not? A.—I am not aware of it; that was before my time.

Q.—I am not saying you are responsible, but is that an authorized investment in your understanding of the Act? A.—I hardly think so.

Q.—You are not doing business in the United States? A.—No.

Q.—You would have no power to invest in securities of American companies? A.—No.

Q.—Then I suppose a call loan on such securities would be improper? A.—I am not prepared to answer that, Mr. Tilley.

Q.—What would be your view of it as manager of a company? A.—I would think it was improper and not in accordance with the Act.

Q.—How about C. P. R. common stock? A.—The same answer would apply.

Q.—Of course those loans were only for a short period of time and they were paid off? A.—Yes.

Q.—There is nothing special about the transaction at all, except that I see that small loans were made on Twin City Rapid Transit stock back in 1901 and were paid off in a month or two afterwards, they being on call loans. You would not make these loans now? A.—No.

Q.—Has there ever been any loss on any investments your company has made? A.—No.

Q.—No loss of any kind or description? A.—Not a single dollar.

Q.—You have not had to cover up anything at all of that nature? A.—No.

Q.—I understand Mr. Rogers, your President, has expressed a little surprise that there was any loan on Twin City? A.—Yes.

Q.—There seems to be nothing about it, except the Twin City was not within the Act, and the loan was repaid within a very short time? A.—Yes.

Q.—What about the C. P. R. common stock? A.—In what respect?

Q.—Is that an authorized investment in your opinion? A.—No, I do not think so.

Q.—But you say there has never been any loss to the company in con-

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nection with any of your investments or loans? A.—None.

Q.—I suppose your company pays a commission on every policy that is written to some person? A.—Not necessarily.

Q.—Have you ever written any policies on which the full premium was paid without any commission being deducted? A.—Yes.

Q.—How many? Is that one glaring instance, or have you many? A.—No. I could prepare you a list of those.

Q.—Are those persons who are connected with the company? A.—Some. Any business I write I never take a commission.

Q.—And do you write business yourself? A.—Whenever I get a chance.

Q.—Does the company take the full premium from that business? A.—Yes.

Q.—Not only the first premium but subsequent premiums? A.—Subsequent premiums.

Q.—Can you tell me roughly how many policies that would apply to? A.—I would rather send you over a list of them. I could prepare that and send it over.

Q.—We would be very glad to have the list; the list might be of all policies whether you have written them or not? A.—Yes.

Q.—Do directors of the company get insurance on any cheaper basis than other persons? A.—Not that I am aware of.

Q.—Do you know of any rebates or commissions that are allowed to them in any way? A.—No.

Q.—Are they allowed commissions on their own insurance? A.—First premiums?

Q.—Yes? A.—Yes.

Q.—All directors or shareholders are? A.—Yes.

Q.—All directors and shareholders are allowed first premiums? A.—Yes.

Q.—But not any subsequent premiums? A.—No.

Q.—Then that would not be insurance you would write? A.—I have written some of our directors.

Q.—In that case was the first premium paid up? A.—They got their commission, certainly.

Q.—The director got the commission? A.—Yes. Pardon me a moment. The answer I wished to make there is this, that personally I have never profited—

Q.—We were not at one. You say you have not got the commission? A.—That is right.

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Q.—But has there been any policy issued where the company has got the full premium without allowing a commission to some person? A.—Yes.

Q.—Are you speaking of many policies now, or just one or two? A.—Quite a number. That is the list I am going to send you over.

Q.—In which the company has got the full premium— A.—100 cents.

Q.—Without allowing first premium to any persons? A.—Yes.

Q.—Either director or any person else? A.—Yes.

Q.—But you say the directors in taking out their insurance are allowed the first premium off? A.—Yes.

Q.—Is that according to any rule? A.—It was in vogue when I took charge of the business.

Q.—It was the practice in vogue then? A.—Yes.

Q.—Is the same rule applied to clerks in the office? A.—Yes.

Q.—Are your office employees paid commissions on business they write? A.—No.

Q.—Do they write any? A.—No.

Q.—Why do they not? because they have not the ability? A.—I could not answer that.

Q.—Or is it not encouraged? A.—It is not encouraged.

Q.—Do you think it is proper to allow the commissions to the employees and directors? A.—I would not care to express an opinion on that.

Q.—We would be glad to have your opinion, if you have one? A.—Well, I have not one, Mr. Tilley.

Q.—Is it a uniform practice in all companies? A.—I believe so.

Q.—It is a practice that generally prevails? A.—Yes. I would not like to say everybody pays 100 cents on the dollar.

Q.—Has that feeling developed since you were put on salary yourself, or has that been one that was with you before? A.—Oh, no. I would much prefer to work on a commission if I had my choice; there would be more money for me.

Q.—Is it possible in your opinion to conduct the insurance business by paying salaries instead of commissions? A.—Yes.

Q.—You think it is? A.—Yes.

Q.—Do you think it is desirable that that practice should be adopted? A.—Yes.

Q.—Why do you say that that is preferable? A.—It will help to stamp out the rebate.

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Q.—It will help to stamp out rebate? A.—Yes.

MR. KENT: Q.—Would it make the business that is written more persistent? A.—That is our experience.

MR. TILLEY: Q.—Why do you find that? Because the man is not unduly pressed to enter? Is that the reason? A.—No. The agent—the commission is his own property in that sense; we cannot control him; but if you are employing an agent on a salary basis, you control his time and he has not anything to give a rebate on, unless he gives his salary.

Q.—He feels that it is more like giving part of his salary away? A.—He would have to give his salary to rebate.

MR. LANGMUIR: Q.—Would his salary be contingent in any way on the amount of business written? A.—Yes.

Q.—Is that not the same thing? A.—Oh, no. Supposing an agent has a commission of fifty per cent.; we cannot tell—we have not any control of what he does with that fifty per cent., but if we were paying him a salary he would not receive his salary if he did not produce business, and if he produced business we would know there was no rebate.

MR. TILLEY: Q.—What you say is that where he has a commission by a certain per centage, being a fairly large per centage that is given on the first year business, that he, in order to get the business, will give away part of that? A.—Yes.

Q.—Whereas if a man wrote a certain amount of business to get a salary, it makes him work all the harder, but he cannot be giving away his salary as he requires the whole of it to live on? A.—Yes; our business has been this—

Q.—Have you attempted—I do not want to disclose the particular transactions of your company with any agent, because there is nothing in that that should be disclosed, and it is perfectly proper that you should not make these transactions bare; but I would like to know whether you have attempted to employ agents on a salary basis and pay them in that way? A.—Yes.

Q.—You have tried the experiment? A.—Yes.

Q.—And how do you find it working? A.—Very satisfactorily.

Q.—Has it tended to stop rebating, do you think, in your company? A.—I should say so. There would not be

anything to give a rebate on with the man has a salary.

Q.—And I suppose it makes the business more persistent to require the applicant to pay the full premium the first year? A.—Yes.

Q.—Let him start as he is expected to continue? A.—Yes.

Q.—Could it be laid down as a rule that agents should be employed that way, or would that be going too far? A.—I would think that would be going too far.

Q.—You think that while it can be done by your company to a certain extent, that it would be too much to prevent commissions being paid as they are now in some cases? A.—Yes.

Q.—Then I understand you to say that no officer of the company receives any commission on first year business? A.—No.

Q.—There is no arrangement either in writing or no understanding that exists whereby any officer of the company receives any part of any agents' commission? A.—No.

Q.—Or any commission on head office business? A.—No.

Q.—The only thing that is allowed is that he is given the first year commission on policies on his own life that he takes? A.—Yes.

Q.—Have you had any disputes regarding the payment of claims, has there been considerable in your company? A.—Very few.

Q.—I suppose that is always a serious matter with young companies any way? A.—We have never had any serious trouble.

Q.—I mean it is one of the things that you are very careful about in young companies, in looking into the claims on policies? A.—Yes.

Q.—And I suppose that if there is nothing suspicious they are paid promptly? A.—Promptly paid.

Q.—Would you tell me how long it takes for an applicant under a policy to get his money usually in your company? A.—Well, it is our practice to send a cheque out 24 hours after the satisfactory receipt of claim papers.

Q.—Within what time? A.—If we receive the claim papers today the cheque would be sent within 24 hours.

Q.—The cheque is sent within 24 hours of the receipt of the claim papers in proper order? A.—Yes.

Q.—Is that conditional on getting a nice letter from the person you are paying it to? A.—No.

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Q.—Or is that done uniformly? A.—Uniformly.

Q.—Do you pay any commissions on renewable business? A.—Yes.

Q.—Is that a basis on which you are still employing agents? A.—No, we give no guarantee of renewal commissions.

Q.—What do you mean by that? A.—Well, the agents are employed sometimes with a guarantee of a renewable commission for a term of years, even if they are with the company or away from the company or in the event of their death. We retain the renewal commissions for the company.

Q.—You say that it is a common practice, or am I wrong in saying it is a common practice? A.—It is a usual practice.

Q.—For companies employing an agent to guarantee to him a certain amount of commission on his renewal business? A.—Yes, for a term of years.

Q.—For 5 or 10 years, or to enter into some contract of that nature with him? A.—Yes.

Q.—That is not a contract that you entered into? A.—No.

Q.—What do you do in that regard? A.—We simply don't do it.

Q.—You give him a renewal commission? A.—While he is an agent and the business is satisfactory.

Q.—Then does he receive renewal commissions after he ceases to be an agent? A.—No.

Q.—When your agent leaves you, does the new agent who takes his work get that commission? A.—It all depends on the volume of business he guarantees.

Q.—The new agent? A.—Yes, if he will guarantee a certain volume of new business we would give him the renewal commission on the old business. In other words, the company controls it, it is the company's property.

Q.—You use it as a basis of making a contract in order to get a good volume from him? A.—No, we do it because we think it is the property of the company.

Q.—You use it as an asset of the company in dealing with your new agent as to the contract you are going to make with him? A.—Or in other words, we don't want anyone to have an annuity.

Q.—Is that practice common? A.—I don't know. We practice it.

Q.—Do you make advances to agents before they are earned? A.—Yes.

Q.—Is that a common practice with insurance companies? A.—Yes.

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Q.—Why is an agent paid any money before he earns it? A.—Well, perhaps I did not answer that question quite right. We make no advances to agents in advance of the services rendered. Quite frequently an agent will have business to his credit in which the notes are current for the premiums. We make advances then on account.

Q.—Is there any method that you adopt in order to secure payment from these agents in case the commissions should not be earned? A.—Oh, we always receive a bond.

Q.—What bond? A.—We have a regular form.

Q.—Is it a bond given by some guarantee company or by friends? A.—Friends, I suppose.

Q.—Each agent must give you some bondsman? A.—Satisfactory to us. We sent you a copy of the bond form.

Q.—Have you had to rely on that bond? A.—Yes.

Q.—And have you had any losses in that way? A.—Not during the past year and a half.

Q.—Would it not be possible to carry on the business without these large advances to agents that some companies make? A.—I think so, yes, by paying the agent a salary.

Q.—Do you know of any other companies that are paying agents a salary? A.—Yes.

Q.—Are they many? A.—No.

Q.—How many? A.—I only know of one, in Canada.

Q.—Is there any objection to giving us the name of that one? A.—I would prefer not to.

Q.—We will probably find it out in another way. Have you contracts with your officers regarding their remuneration? A.—No.

Q.—I thought that there was a contract with the medical director for some 4 or 5 years? A.—Not to my knowledge. I never heard of it.

Q.—I notice that in the minutes of the shareholders it states that \$400,200 of the company's stock had been subscribed and \$93,000 paid, of which \$18,000 was contingent fund account. What does that consist of? A.—That is before my time. I know nothing about it, sir.

Q.—Is there any account in the books that would be the result of that contingent fund account? A.—No, sir not that I am aware.

Q.—Would it be premium on stock do you suppose? A.—It may have

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been that. I could look it up and find out.

Q. You have nothing in your mind that would answer that description?
A.—No.

Q.—Here is the minute about the medical director. "That Dr. A. A. Macdonald, who has been appointed chief medical officer of the company, be engaged on an agreement to be prepared by the solicitors, for a period of 5 years commencing the 1st day of June, 1899, at a salary of \$600 the first year, \$1,000 for the second year, and an increase to be given if and when the directors think the business and duties of the chief medical officer warrant it. Draft agreement to be submitted to the Executive Committee." Later I think the draft agreement was submitted if I remember rightly. Do you know whether that resolution on June 30th, 1899, correctly sets out the arrangement? A.—This is the first I ever heard of it, there is no agreement in existence now.

Q.—What is his remuneration now?
A.—\$1,000 a year.

Q.—There would be no reason that you can think of why a contract for 4 or 5 years should be made with a medical director? A.—No.

Q.—What provincial advisory boards have you now? A.—Not any.

Q.—Why were they ever created?
A.—I fancy to secure the influence of these gentlemen in the several localities.

Q.—Were they formally disbanded or you simply don't refer to them now, ceased referring to them in your literature, that is what it practically amounts to, is it not? A.—Yes.

Q.—They were there merely, I suppose, for reference as to good character and so on? A.—Yes.

Q.—Advertising purposes? A.—Exactly.

Q.—There are no fees paid to them at the present time? A.—No, our directors are not receiving any fees just now.

Q.—No directors' fees are being paid at all now? A.—No, sir.

Q.—Since when was that established? I know it was \$5 a meeting paid usually? A.—There was not anything paid for 1905. Nothing to date this year.

Q.—Is that pursuant to any resolution? I have seen none in the minutes about it? A.—No resolution. A mutual understanding.

Q.—A mutual arrangement to keep down expenses, I suppose? A.—Yes.

Q.—Until the probation period is over? A.—Yes.

Q.—Then I notice that on February 7th, 1905, the report of W. T. Standen, of New York, consulting actuary, was presented to the meeting? A.—Yes, that was before I took charge.

Q.—Is W. T. Standen the present consulting actuary of the company?
A.—No.

Q.—Who is the consulting actuary?
A.—We haven't any.

Q.—Have you any actuary of any kind, consulting or permanent, in the office? A.—No.

Q.—Is it possible for an insurance company to get along without an actuary? A.—Yes.

Q.—For how long? A.—Well, we are considering the question now of engaging one.

Q.—I suppose it becomes very material when you come to distribute profits? A.—Yes.

Q.—How do you fix your rates for insurance? A.—They were all arranged by an actuary. We have not changed our rates.

Q.—Was Mr. W. T. Standen the man who fixed the rates for the company? A.—No.

Q.—Who was? A.—I have forgotten his name. I could get it for you. It was before my time.

Q.—Is this the report of Mr. Standen, February 7th, 1905? A.—Yes.

Q.—There are some parts only of this that I care to read. There are some parts of it probably that are not material. We will have a copy made showing the parts we are using. In the 2nd paragraph of this report he says: "An examination of your statement of course makes it clear at first glance that had it not been for a fortunate investment made by you in what is to be known as your home office building, the capital of the company would have been practically extinguished. Under such circumstances it is, of course, very natural to suspect gross faults of management coupled perhaps with reckless expenditure. I am glad therefore to be able to report that the management has not been at fault in any such manner." What is his reference there to the home office building? A.—In what respect?

Q.—He speaks of a fortunate investment. How does it appear as a fortunate investment in your books? A.—That was under Mr. Matson's management. I would rather not criticise his management.

Q.—I am not asking you to do that? A.—I would have to do so to properly answer your question.

Q.—To that extent I will have to

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ask you to do so if that becomes necessary. When was the building bought? A.—Mr. Rogers perhaps can tell you that.

Q.—December, 1904, Mr. Morris tells me the transaction was completed? A.—Yes.

Q.—\$37,500 I think you paid for it originally, and do you know what has been paid on the building since? A.—The alterations?

Q.—Yes? A.—I could not give it you off hand. I could give you a detailed statement the same as furnished to the Insurance Department.

Q.—Mr. Rogers says there was some \$40,000 more spent on it? A.—More than that, I think.

Q.—Probably we had better have that account? A.—The value of our head office building was fixed by arbitration, at the suggestion of the Insurance Department in November last.

Q.—Yes, I was going to drop that subject until you got that account? A.—It looked like a doubt, as if something was not right about our building.

Q.—I am glad you mentioned this if you thought that, because that is not the point that I was thinking of bringing out at all. The matter that was in my mind was as to the one factor that went to help you to get over this period that is a hard period for every young company by reason of the high reserve you must put up and the large expense of getting business, and that was one factor that helped this company out, the profit on that transaction? A.—The profit was put on, but it was written off again.

Q.—The whole of it? A.—I would not say for sure.

Q.—I think it still left something and that was one item which helped you out. I am not saying you put it in at a dollar more than it was worth, because it was valued again later on at the request of the Department? A.—Yes.

Q.—Then he goes on: "The only material increase is in the inevitable compensation to agents and such items as relate directly to the cost of procuring business, including salaries paid to agents, their commission, rents, allowances and travelling expenses." That is one of the items that you set yourselves hard to work to bring down, wasn't it? A.—Yes.

Q.—And you feel that you have succeeded fairly well, don't you? A.—Yes.

Q.—Tell me what means you adopted to do that without giving any particular detail of a private nature as to any

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agent? A.—We reduced the schedule of commissions and we cut off a number of contracts that were unprofitable.

Q.—Agents' contracts? A.—Yes. And reduced our travelling expense account. Wherever we could cut our expenses down they were cut down. I cannot give any other information about it.

Q.—Was it all part of the same scheme to keep down the expenses, that you wrote a great deal of term insurance? A.—That did not affect it at all.

Q.—It did not affect the actual expenses but it affected your progress as a company, did it not? A.—Oh yes, we had not so large a reserve to put up.

Q.—That was decided on at the same time as you were making these changes as to compensation to agents? A.—Yes.

Q.—That is what I was referring to, and you have told us how your change with agents has worked out? A.—Yes.

Q.—You think that insurance can be carried on at less cost? A.—Yes.

Q.—Than has been shown by the old history of the National Life at any rate, and by other companies? A.—Yes.

Q.—And you are going to give it a fair trial? A.—Yes.

Q.—Then do you consider that the change to a term period was in the long run beneficial, or was it something that was necessary by reason of the high reserve that you required to keep up? A.—Oh, I like the higher premium the best.

Q.—That would be an ordinary life policy? A.—Or endowment.

Q.—Any other kind except a term? A.—Yes.

Q.—As I understand a term policy, it is a policy that is taken out and the insured pays merely for the insurance during a certain number of years? A.—This policy we write is not that kind of policy at all. It is what is called a 5 year option policy. We sent over a sample of it. It provides that at the expiration of the 5 year period, or sooner if the assured likes, he may change it to an ordinary life, an endowment or a limited pay, and the rate for the change is stated right in the policy. A 5 year term policy is purely like a fire insurance policy, it is for a period of 5 years. This is renewable.

Q.—If you speak of the term policy in the ordinary sense, it means a per-

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iod for a certain number of years and at the end of that time? A.—The insurance ends.

Q.—And there is no value in the policy? A.—No, that is not the policy we write.

Q.—What you have done is to take that policy as a basis and then add to it provisions in favour of the insured? A.—Yes, guarantees.

Q.—A guarantee as to what insurance you will give him at the end of that time if he cares to continue, in some other form of policy? A.—Yes.

Q.—The rate you charge during that 5 years is not uniform, but the new rate is shown in your policy? A.—Yes.

Q.—Does he get at the end of that five years any cheaper insurance than he would have got had he not taken the term policy? A.—Oh yes.

Q.—Is that based upon any actuarial calculation? A.—Yes.

Q.—By whom? A.—I think Mr. Standen prepared that. I think he prepared the rates.

Q.—How long has that policy been in existence? A.—Well, the company had the policy before I took charge, but there was very little business written on that form.

Q.—And your change was to make more use of that policy than the company had in the past? A.—Yes, Mr. Standen recommended us to do so.

Q.—Then you say that you would prefer the ordinary insurance, but that by reason of the high reserve it requires a large payment into the company of money in order to answer to that reserve in the young stages of the company? A.—Yes, but it does not make any difference whether the company is young or old.

Q.—I mean the company would have to use its surplus otherwise but when there is no surplus it must actually pay the money in? A.—Yes, but we have a surplus, Mr. Tilley.

Q.—No surplus sufficient, would that be right? A.—We have a surplus sufficient for our own use just now.

Q.—Have you a surplus sufficient for your own use now to put up the reserve without this money that is being paid in by shareholders? A.—Oh no, we would have to use a portion of that temporarily.

Q.—And your change has obviated the necessity for paying any more in premium in the same way? A.—Yes.

Q.—Doing that or issuing more stock. Do you regard the reserve as being necessary for a young company? A.—Yes.

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Q.—To the extent to which the present law requires it to be kept up? A.—Yes.

Q.—Do you think that it is hard on a young company? A.—Yes, it is hard on all companies.

Q.—Well, on the young company in particular? A.—Yes.

Q.—Or probably on the shareholders in the young company? A.—Yes, that is right.

Q.—Then would you favor any change whereby a less reserve would be required in the first years of a policy? A.—Yes.

Q.—And a higher reserve in the later years of a policy? A.—If we were allowed to put up a term reserve on the first year it would be all right. If you take the lapses, there is such a large volume of business on the books one year and off the next, and temporarily you have this large amount of reserve up there.

Q.—And notwithstanding the necessity for putting up that reserve the companies will go after these first year policies? A.—Yes.

Q.—Do you think letting them do that business without any reserve would tend to increase or diminish that trouble of lapsed policies at the end of the year? A.—I think it would be a serious mistake to waive the reserve.

Q.—A serious mistake to waive the reserve entirely? A.—Yes.

Q.—Would you drop it at all, is not that a little deterrent on this first year's business? A.—The term reserve would be ample I should think. What I mean by the term reserve, if we could treat each policy as a term policy the first year, and if renewed then a reserve on the 3½ basis.

Q.—Would not that tend, if you could take chances on a policy lapsing at the end of the year, to increase this writing of policies that go out of existence as soon as one premium is paid? A.—I don't think it could be any worse than it is now.

Q.—Well, probably that is so. Then Mr. Standen says: "I do not think it is necessary for me to say anything further in relation to such items as come under the head of general office expenses, because I do not find that these expenses are excessive in any way. On the contrary everything pertaining to your home office and its management is conducted on a modest and economical basis and it seems quite evident that home office expenses could not be decreased without loss of dignity and prestige to the com-

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pany." That was written in 1905? A.—Yes.

Q.—And do you say you have cut it down lower still? A.—Yes. Our head office expenses are not lower.

Q.—This referred merely to the head office expenses. "Starting business as you did in the fall of 1899, when the conditions of competition for new business were the keenest and when the cost of securing a reasonable amount of business was at its highest, it was a foregone conclusion that the company would have to sink almost all, if not the whole, of its capital in the purchase of a plant with which to carry on a successful business before it could hope that the returns from such business would permit a reduction in the impairment of capital and its final restoration." I suppose that is not Mr. Standen's idea only; it is every person's idea about a company starting on the conditions that exist here, there must be impairment of capital or money paid in by shareholders for premium? A.—Yes.

Q.—From what you have said you would not have a mutual company or be associated with it at all, would you? A.—No.

Q.—You would not consider it wise in any way to transfer a stock company to a mutual company after that period had passed when the capital is required? A.—Oh, no.

Q.—Why would not a wholly mutual company be successful or proper from your standpoint? A.—Because I take the opposite view.

Q.—Why? A.—A mutual company, as a rule, is conducted by a few men who hold the proxies; the policyholders do not control the company.

Q.—Do you say that the control of a mutual life insurance company is in a few hands? A.—Yes.

Q.—Is that objectionable? A.—Unless they have some of their own money at stake.

Q.—The policyholders have more money at stake than the shareholders in the ordinary company? A.—Yes, but they don't take any interest in running the company and you could not get them to.

Q.—How does it come that the control of a mutual company gets into the hands of a few? A.—Well, they must have a management and you cannot be changing your management each year, if you want to have a successful business. And it is quite natural for the management to become more powerful each year.

Q.—You think that the management

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have power to get the vote in for themselves? A.—Yes.

Q.—Better in a mutual company than in a stock company? A.—Yes, and the man who has his capital invested will take a greater interest than the man who has not any capital.

Q.—Mr. Standen says: "Upon the amount of business which you have in force, and considering that it is of such recent issue, you ought not to have actual death losses of more than from \$35,000 to \$40,000. Instead of that they have aggregated about \$80,000. An unexpected burden upon the company of between \$40 and \$45,000." Do you agree with that statement? A.—I have never given it any thought.

Q.—Has there been a heavy death loss in your company? A.—Not unusually so.

Q.—He speaks of it as instead of 35 to 40, that it has been \$80,000, in 1905, the time he wrote his report? A.—The death losses were not that amount in 1905. That was during the history of the company, the death losses.

Q.—Oh yes, up to 1905 I should have said. Have you not considered that phase of his report? A.—Well, to be perfectly frank, I would have to criticise my predecessor to answer these questions, which I would rather not do.

Q.—Do you agree with this statement of Mr. Standen's? A.—No.

Q.—I do not want to have it a mere personal matter between any persons, but I would like to find out whether you consider these death losses to be high or low? A.—Well, if you will pardon me I would rather you would question our secretary who was associated with the company during all those years and who knows more about it than I do.

Q.—I am told that this death loss is not a great deal more than what might be expected? A.—I agree with you.

Q.—Then you disagree with the report? A.—Yes.

Q.—Then the report is in that respect probably a little misleading? A.—Yes.

Q.—I am told that the death loss that might be expected would be about \$70,000? A.—Yes.

Q.—And yours was \$80,000, a little higher than might be expected, probably? A.—Yes.

Q.—Then he goes on to say in another paragraph: "I have made a

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critical examination of all the papers pertaining to each and every one of the death claims against the National Life and a careful inspection of the original application, and although the death claims aggregate 45 in number, there are only two cases where the wisdom of accepting the application in the first place would seem to be open to any question at all." So that he does not seem even in his view of the death loss, to criticise the medical department in connection with that? A.—No.

Q.—He says further, "It seems to me, however, that too many contracts have been made with men of not sufficient standing and ability to produce results, and while they have been dispensed with as soon as their failure has been recognized, they have as experiments, been rather costly to the company." What care is exercised in the appointment of agents? A.—Now?

Q.—Yes, now? A.—We never appoint an agent without getting satisfactory references.

Q.—From whom? A.—From people residing in the locality where the agent lives.

Q.—How do you follow up the references? A.—We write direct to them. We obtain a commercial report, a Bradstreet or a Dun report. A bond, And our appointments are all confirmed by the Executive Committee. No appointment is in effect until approved by the Executive Committee. Those are our precautions.

Q.—Is it difficult to get good agents? A.—It is always difficult to find a good salesman, yes.

Q.—And has your company experienced that difficulty? A.—We are going along very nicely.

Q.—Is what Mr. Standen says here true, that there were agents who should never have been employed? A.—Yes.

Q.—In what respect would that injure the company? A.—Make the cost of business too great.

Q.—Why? A.—They were paid too high a commission.

Q.—And were high commissions paid by the National Life? A.—Yes.

Q.—How high? A.—Some men were receiving 75 per cent. on an ordinary life or a 20 pay life policy.

Q.—75 per cent. of the first year's premium as commission? A.—Yes.

Q.—Men who had no office expenses to pay? A.—We paid the office expenses.

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Q.—Would he get renewal premiums? A.—Yes.

Q.—What renewal premiums? A.— $7\frac{1}{2}$ per cent.

Q.—He would get 75 per cent. of the first year premium and $7\frac{1}{2}$ per cent. on renewal premiums and you paid his office rent. That is very high is it not? A.—It is not in existence now.

Q.—But that was a very high commission? A.—Yes, we thought so.

Q.—Were there many contracts such as that? A.—No, there was one.

Q.—Is that an unusually high commission to pay compared with what companies are paying at the present time? A.—I am not aware of what our competitors are doing just now.

Q.—Oh yes, you have a pretty good knowledge of what your competitors are doing? A.—No, some of them tell us they are paying small commissions.

Q.—But you do not take that in? A.—We have to believe them until we know otherwise.

Q.—You could not say whether other companies have as high commissions as that or not? A.—Oh yes, I think there are companies who pay higher.

Q.—There are companies that pay more than 75 per cent. of the first year and $7\frac{1}{2}$ on the renewal? A.—Yes, I would not say anything about the renewal. I know of companies that pay more than 75.

Q.—Do you mean to say that there are companies that give away the whole of the first year's premium? A.—I have heard of such transactions.

Q.—Does your company make any allowance to agents if they have to give a rebate to the issuer? A.—No.

Q.—Have you ever done such a thing? A.—Not to my knowledge. We never go higher than the commission mentioned in the contract.

Q.—The commission mentioned in the contract with your agent? A.—Exactly.

Q.—But when your agent comes to you and says, I think I can land a certain policy but I have got to give a rebate of a certain amount, don't you ever make some allowance? A.—No, the commission is the highest we pay. That is the commission mentioned in the contract with the agent. That is the limit.

Q.—How do your rates compare with other companies? A.—They are slightly lower.

Q.—Why it that? A.—I don't know. I wish they were higher.

Q.—Does competition compel you to

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be a little lower at the commencement?
A.—No, these rates were fixed before I took charge of the company. We are re-arranging them now.

Q.—To get them a little lower still?
A.—A little higher.

Q.—You think they should be higher? A.—Yes.

Q.—Who is doing the re-arranging now? A.—Mr. Sparling, our secretary.

Q.—Is he competent to do that?
A.—Yes, we will submit them to an actuary before they are actually put into force.

Q.—Do you think that your rates charged have been too low? A.—Yes, we should receive the same premium as other companies.

Q.—And then in this report he makes the recommendation as to changing the character of the policy that you should endeavour to issue? A.—Yes.

Q.—Where you decide to write one policy more than another, do you issue any circular to your agents? A.—Just write them a letter or two.

Q.—Or do you change their rate of commission, and then leave that to work out its own cure? A.—We reduced the rate of commission on that plan.

Q.—Then you do issue circulars to your agents giving your view as to the policy they should try to write? A.—Yes.

Q.—I wish you would let us see that?
A.—That will be among our correspondence.

Q.—Probably you could show us an example this afternoon? A.—Yes.

Q.—Now he points out in this report what you have mentioned. That the limited payment life and the endowment policies are the best, but that the company must resort to term or some modification of term insurance if it is going to do what is best in the interest of the company at its age? A.—Yes, that is right, a certain portion of the business, not all the business.

Q.—A certain part of it in order to keep down the reserve? A.—Yes.

Q.—Is the issue of that sort of policy in the interest of the policyholder? A.—Yes.

Q.—You think so? A.—Yes.

Q.—Have you received any complaints by persons not understanding that transaction? A.—Not one. It is all set out in the policy.

Q.—But they never read the policy you told us? A.—Well, before they would make a complaint, they would probably look over the policy.

Q.—To find out where they stood?

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A.—They may have looked it over and not found anything.

Q.—I suppose the term has not expired on any of those policies? A.—Oh yes.

Q.—Have any of them been changed to ordinary policies? A.—Yes, we have not lost one of them, they have all renewed.

Q.—Then I see there is a recommendation as to selling additional capital. Is that the time the capital was issued? A.—Since then.

Q.—And that additional capital was all taken up was it? A.—All taken up.

Q.—I will put in an extract from Mr. Standen's report, but not the report itself (Exhibit No. 160.)

Do you know whether this is your profit and loss statement as finally settled? A.—Yes, this it is. I know the handwriting of the accountant (Exhibit 162.)

Q.—Copies will be made and I can take up something else in the meantime. Is this the form of your loan agreement? (Exhibit 161.)

Q.—Paragraph 3 reads this way: "Although it is not intended that said company shall demand repayment of said loan under ordinary circumstances and provided the interest be duly and promptly paid till the death of the assured or maturity of the policy, it reserves the right to do so on giving 3 months' notice in writing demanding said repayment." Tell me what the object is of putting in a clause that gives the company the right to demand repayment? A.—Well, that form was prepared before I was in charge of the company and I am not familiar with that.

Q.—Would you change it? A.—I would refer that to the solicitor of the company.

Q.—You are going to insist on putting that on Mr. Marsh? A.—Yes, sir.

Q.—I am not saying that it is an extraordinary clause, because we have seen it in others, but I would like to know why companies use it, if you can explain it? A.—No, I cannot.

JUDGE MAC TAVISH: That loan would be apparently a loan until the death of the assured.

MR. TILLEY: The policyholder would have the right to continue it that long. It is a loan that is amply secured is it not? A.—Yes, by the legal reserve.

Q.—So long as the interest is promptly paid there cannot be any

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fear of loss to the company? A.—No loss.

Q.—Then do you know of any reason why the company should reserve the right to demand it? A.—I will have to refer you to the solicitor for that.

Q.—Then paragraph 5: "The said company before acceptance of any premium to become due on said policy reserves the right to require payment of any interest due and unpaid on said loan and of any expense incurred by reason of such non-payment and to decline to receive the said premium until said interest and expenses are paid." Do you know why that clause is put in? A.—No.

Q.—I was wondering why the company would need that for its protection? A.—Mr. Marsh would know.

Q.—This reads in this way: "In the event of default in payment of said interest or said loan or of any premium of said policy for one month after same shall respectively become due, said policy shall be deemed to be and shall be in fact, at the option of said company, surrendered to said company without any notice or act by either party hereto, at the customary surrender value then allowed by said company for the surrender of policies of its class, said company to be liable to the policy for the return of the balance of cash surrender value after deducting said loan, interest and any expense incurred thereon." Do you know why that clause is there? A.—I will have to refer you to the solicitors on that.

Q.—I suppose every new company starts out by having a look at the forms used by other companies? A.—I fancy so.

Q.—And this might be the result of an investigation of other forms used by other companies? A.—Probably.

Q.—That being so we will put this in as a copy of what you are using. (Exhibit 161.) So far as you know there would be no special consideration given to the form of the policy loan agreement by the directors of the company? A.—No.

Q.—Probably their only anxiety being to get one that would be uniform with the others? A.—Yes.

Q.—I see nothing about it in the minutes of the company. Do you issue books in which you estimate the profits and surplus? A.—Yes.

Q.—How would you get up such a book as that? A.—You have them right there in your hand.

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Q.—Do you know who prepared them? A.—The actuary.

Q.—Who was he? A.—I have to find out his name for you.

Q.—It is the same actuary who prepared the rates and estimates of profits? A.—Yes.

Q.—Do you know whether you will be able to live up to the estimates? A.—We expect to.

Q.—Have you reason to think you will? A.—Yes.

Q.—I understand that the estimates that you have used are practically the same as other Canadian companies whose business has been in force for some time? A.—I could not answer that.

Q.—You do not know about that? A.—No, I think that in some cases they are lower.

Q.—And in some cases a little higher, are they not? A.—I am not aware of it.

Q.—Do you approve of issuing estimates of profits? A.—No.

Q.—Is it not particularly bad in the case of a young company where it has no record or experience on which to base estimates? A.—They have the experience of other companies.

Q.—But different companies get different results do they not? A.—Yes.

Q.—And there is no way of comparing the management of a new company with the management of these old companies? A.—The actual experience of the company will answer that.

Q.—And therefore an estimate before the company has had any experience at all would be rather improper in the case of a young company, wouldn't you say? A.—No.

Q.—You think not? A.—No, it is quite proper. All companies do it.

Q.—You think all companies should not do it? A.—I would be glad to see the estimates wiped out.

Q.—Do you think that companies should be prevented from issuing estimates? A.—Yes.

Q.—Estimates of any kind? A.—Yes.

Q.—Not merely misleading estimates? A.—All kinds of estimates.

Q.—Why do you think that, why is it so harmful as that in your opinion? A.—Well, estimates have been very seldom realized. They have been disappointing.

JUDGE MacTAVISH:—They have never been exceeded, I suppose? A.—Never exceeded.

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MR. TILLEY: From the experience of other companies for the last 20 years, do you anticipate that the profits will be as good in the next as in the last 20? A.—They ought to be after this Commission is through.

Q.—Were you depending upon that when you made your estimates? A.—No.

Q.—I suppose that you have got to issue estimates that will attract the proposed insurer by way of competition with other companies? A.—You must, I suppose.

Q.—You could not issue a book showing your estimates of surplus or of profits to be lower than your rival companies? A.—We should do so if we did not think we could earn as much.

Q.—But you would not issue the book at all if you had to do that, would you? A.—Oh yes, we would, only we would advocate some other plan of insurance instead of an investment policy.

Q.—You would not attempt to push that line of insurance? A.—No.

Q.—If you want to get that line of assurance, these estimates are simply advertising matter? A.—To some extent yes.

Q.—And for that reason you do not advertise them broadly but keep them in some book which is the agents' property? A.—Exactly.

Q.—Do you know anything about the system adopted in Great Britain in that regard? A.—No.

Q.—You cannot speak of it at all? A.—No.

Q.—I am told, Mr. Ralston, that your company issued during the 12 months ending 31st December, 1904, \$1,474,504 of insurance? A.—Yes.

Q.—And that of that there were not taken \$45,500 of insurance, or about 3 per cent.? A.—Yes.

Q.—And lapsed in the next year \$385,000 or 26 per cent.? A.—Yes.

Q.—That is the lapsed and not taken policies would constitute 29 per cent. of all the insurance written that year? A.—Yes.

Q.—Isn't that rather high? A.—It is rather favorable.

Q.—What would be a fair percentage? A.—50 per cent. gain is considered a very fair one, a very large one.

Q.—What do you mean by a gain of 50 per cent.? A.—A gain of 50 per cent. of the business written?

Q.—That is, you do not expect 50 per cent. of the business written to

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lapse? A.—I am taking the whole business for one year.

Q.—But this is 29 per cent. of the business written in 1904? Oh, no, that is a mistake. Let me see if I understand your question, do you mean that out of this business that we lapsed 29 per cent. of it?

Q.—Yes? A.—Well, that is absolutely wrong.

Q.—Why? A.—We did not lapse 29 per cent. out of the business written in the one year.

Q.—Let us look at the Blue Book of 1904. New policies issued in 1904 amounted to \$1,474,594, that is right? A.—Yes. Oh, I thought you were dealing with 1905. I asked you that.

Q.—No, I took the business of 1904 and then I followed that business into the year 1905 and I think I find that 29 per cent. of it lapsed or was not taken in that year? A.—I am not familiar with that I thought you were referring to the 1905 business.

Q.—Then you cannot say whether the 29 per cent. of the 1904 business lapsed or became not taken in 1905 or not? A.—Well, that would be correct I fancy.

Q.—Would you say that was high or low? A.—I would like to see it lower, yes.

Q.—It should be lower? A.—If we could make it lower it would be.

Q.—You are getting it lower? A.—Yes.

Q.—By this change you have mentioned in the way of employing agents, and so on, you will have it lower? A.—We expect to, yes.

Q.—How is it that there are so many not taken policies, what does that mean? A.—Ours are very small.

Q.—I did not intend to say that it was large although I may have given that impression? A.—A not taken policy is one on which nothing has been paid and our percentage is small.

Q.—Your large amount is in the lapses? A.—Yes.

Q.—Why should there be so many not taken policies in any company? A.—Well, some companies handle that feature differently. We do not accept an application unless there is a settlement of the premium with the application, either by a note or payment.

Q.—A not taken policy is a policy on which nothing has been paid? A.—Yes.

Q.—And your proportion of not taken policies is low? A.—Yes.

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Q.—But your percentage of lapsed policies is rather high? A.—Yes.

Q.—MR. LANGMUIR: What is the method of dealing with that? When an agent sends in an application for a policy, do I understand that you write that policy and send it to the agent and ask him for payment of the premium? A.—Our system is this, that when the application comes into the office, there is a question in the application blank which reads like his, "Have you paid any part of the first premium? If so to whom?" If that question is not properly answered we hold the application in abeyance until a proper answer is received. We do not write a policy unless we have a settlement or know the settlement at the time the application is being considered.

MR. TILLEY: How is it then that you have any not taken policies if that is the case? A.—Oh, well there is bound to be a case here and there.

Q.—Is it or is it not a fact that in the insurance business these not taken policies are written for the purpose of swelling the new business in the year? A.—I have never had any experience in that line. I give you that under my oath. I have heard of those things but I have never had any experience in them.

Q.—If one finds the not taken insurance to be large it would be open to that suspicion? A.—And it might be that the company employed an agent that it should not employ.

Q.—One would think that your method would be the correct one, in not issuing the policy until something had been paid? A.—I think so, yes.

Q.—But that is not a rule that is adopted uniformly in life insurance companies? A.—I think the companies are beginning to consider that question. It costs money to issue a policy.

Q.—And other companies are doing the same thing, you think? A.—I think so.

Q.—Then this is your profit and loss statement for the year 1905? A.—Yes. (Exhibit 162.)

Q.—I see that your loading on the first year's premiums was \$12,692.01? A.—Yes.

Q.—And the net expected death loss was \$7,559.25? A.—That was the expected.

Q.—You had no losses that year? A.—None.

Q.—That would be exceptionally good would it not? A.—I cannot see how it could be better.

Q.—You would expect how much, \$7,559.25? A.—Yes.

Q.—And there would be a profit then on that of \$7,559.25? A.—All profit.

Q.—The total of those two items is \$2,521.26? A.—Yes.

Q.—You had the loadings and the benefit of having no death losses? A.—Yes.

Q.—Then your expenses for the first year were \$39,894.62? A.—\$38,000.

Q.—\$38,000? A.—Yes. So that your loss in that way on the first year business in 1905 was \$18,383.76? A.—Yes.

Q.—How would you describe that, as being a good showing under the conditions that exist, that it should take \$18,373 over and above your loadings? A.—If that was the whole business, if we had not these items, yes.

Q.—That is to say if you had not the renewal receipts? A.—Yes, the renewals and interest earnings and the release of the reserves on lapsed policies.

Q.—I am taking now as compared with other companies? A.—You will find that very favourable I think.

Q.—I am told that that is not excessive? A.—No.

Q.—That would be due partly of course to your not having any death losses in that year? A.—And due to the fact that we cut down our expenses.

Q.—Can you say how that compared with the previous year, roughly? A.—It is lower.

Q.—How much lower? A.—I couldn't give the figures exactly. I could obtain them for you. Our secretary looks after all this business.

Q.—If you could give us your best impression whether it is ten or a five thousand? A.—I think it is perhaps more than that, between ten and twelve thousand.

Q.—You think that is between ten and twelve thousand dollars less of a loss than the first year business in 1904? A.—Yes.

Q.—Then your loading on renewal premiums in 1905 amounted to \$26,238.95? A.—Yes.

Q.—And all other expenses except taxes and repairs, would be \$28,898.97? A.—Yes.

Q.—You hardly kept within the loading on your renewal premiums, did you? A.—No.

Q.—Should you be able to do so? A.—It is rather difficult to do. I don't

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